

S. HRG. 106-758

GAO'S PERFORMANCE AND ACCOUNTABILITY REVIEW: IS THE SBA ON PAR?

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES SENATE ONE HUNDRED SIXTH CONGRESS SECOND SESSION

JULY 20, 2000



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GAO'S PERFORMANCE AND ACCOUNTABILITY REVIEW: IS THE SBA ON PAR?

THURSDAY, JULY 20, 2000

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The Committee met, pursuant to notice, at 9:30 a.m., in room 428-A, Russell Senate Office Building, the Honorable Christopher S. Bond (Chairman of the Committee) presiding.

Present: Senators Bond, Enzi, Snowe, and Kerry.

OPENING STATEMENT OF THE HONORABLE CHRISTOPHER S. BOND, CHAIRMAN, SENATE COMMITTEE ON SMALL BUSI- NESS, AND A UNITED STATES SENATOR FROM MISSOURI

Chairman BOND. Good morning. The Small Business Committee will come to order. Senator Kerry will be joining us, but since we have a full schedule of witnesses today and the possibility of votes beginning sometime right after 9:45, I thought we would start and get as much testimony in as we can before we have to go off to vote.

Let me say that as we begin this hearing, it is with a heavy heart, particularly on the Small Business Committee, that we note the passing of a dear friend, Paul Coverdell. He was a great champion of the small business community. He was a dedicated leader in the Senate.

Since I became Chairman of this Committee in 1995, Paul Coverdell has been a valued and dedicated Member of the Committee. He worked tirelessly for small business on many critical issues, including making the SBA a more efficient and effective supporter of small business, tax relief and IRS reform, ensuring a drug-free workplace, and improving educational opportunities for America's children.

He certainly is going to be missed by all of us. We feel a special connection with Paul as Missourians. He was a Missourian for a while, lived near Kansas City and attended the University of Missouri. But most of all, I think that all in the small business community will remember him as one who really had the interests of small business at heart and he was undoubtedly a valued member of our leadership.

Our thoughts and prayers are with his wife, his family, his staff, and all those who cared greatly for and appreciated the work that Paul Coverdell did.

Today's hearing is the first in a series of hearings by the Committee on the management challenges faced by the SBA. This hear-

ing also introduces a new methodology that the GAO is using to assist Congress with its monitoring and oversight efforts. Of course, the GAO's job is to assist Congress by providing careful, independent, and objective reviews of agency operations and programs. Most of the GAO's reports, however, focus on isolated programs, processes and/or concerns, and while they provide important information about the various specific aspects of an agency, they do not provide Congress or the agency administrators with a complete picture of how an agency is operating.

Accordingly, last October, at my request, the Committee and the GAO set out to formulate a method for the GAO to conduct an examination of agency operations that would provide depth and breadth to root out any systemic problems in an agency, not just symptoms of such problems that might appear in the way a particular operation is undertaken. The result is what GAO has dubbed the Performance Accountability Review, or PAR.

The PAR is a way for the GAO to provide an overall assessment of an agency's major performance and management challenges. What the PAR entails is a comprehensive review of agency operations that are most critical to the achievement of an agency's mission. These include an agency's strategic and performance planning, information systems management, financial management, human capital, client services, and budget formulation and execution. The PAR review also calls for a review of mission-critical program and ties the shortcomings an agency might have with its programs to systemic issues related to general agency operations.

As a former State auditor, I am familiar with accountability reviews, performance reviews, and functional reviews. I share Mr. Walker's vision that it is of the utmost importance that Congress actively exercise its oversight authority to ensure that the Federal Government is operating in the most effective, efficient, and economical manner possible. That is the ultimate goal of PAR.

Now, after formulating the method by which the GAO could perform this type of review, the Committee concluded it was important that the GAO perform the Performance and Accountability Review at the SBA. There are three primary reasons. First, the SBA is an agency in transition. At the request of Congress, the SBA has outsourced many of the tasks it used to perform in-house. It is transforming itself from a programmatic agency to a regulatory agency, and we need to monitor how it is carrying that out.

Second, there have been concerns raised to the Committee about how the SBA manages its core programs. The Committee has received several reports from the SBA Inspector General and GAO demonstrating serious problems with its core programs.

Finally, the SBA is a small agency compared to behemoths like HUD and the IRS, and PAR is intended to be a prototype that we expect the GAO can use in all other agencies.

We will hear more about that from the Comptroller General, but PAR is challenging, comprehensive, and resource intensive, not only for the GAO and the SBA but for the Committee. We believe that there are many important aspects to this Performance Accountability Review and before we turn to the Comptroller General, I want to call on Senator Enzi for any opening comments that he wishes to make.

[The prepared statement of Chairman Bond follows:]

STATEMENT BY SENATOR CHRISTOPHER S. BOND, CHAIRMAN
Committee on Small Business
Hearing entitled
“The GAO’s Performance and Accountability Review: Is the SBA on PAR?”
July 20, 2000

Good morning. This morning’s hearing is the first in a series of hearings by the Committee on the management challenges faced by the SBA. This hearing also introduces a new methodology that the GAO is using to assist Congress with its monitoring and oversight efforts. Of course, the GAO has always assisted Congress by providing careful, independent, and objective reviews of agency operations and programs. Most of the GAO’s reports, however, focus on isolated programs, processes and/or concerns, and while they provide important information about the various specific aspects of an agency, they do not provide Congress with a complete picture of how an agency is operating.

Accordingly, last October, the Committee and the GAO set out to formulate a method for the GAO to conduct an examination of agency operations that provides depth and breadth to root out the systemic problems in an agency, not just the symptoms of such problems that might appear in the way a particular program operates. The result is the Performance Accountability Review or PAR.

The PAR is a way for the GAO to provide an overall assessment of an agency’s major performance and management challenges. What the PAR entails is a comprehensive review of the agency operations that are most critical to achievement of an agency’s mission. These include an agency’s strategic and performance planning, information-systems management, financial management, human capital, client services and budget formulation and execution. The PAR review also calls for a review of mission-critical programs and ties the shortcomings an agency might have with its programs to systemic issues related to general agency operations.

As a former state auditor, I am familiar with accountability reviews, performance reviews and functional reviews. I share David Walker’s vision that it is of utmost importance that Congress actively exercise its oversight authority to ensure that the Federal government is operating in the most effective, efficient and economical manner possible. That is the ultimate goal of the PAR.

After formulating the method by which the GAO could perform this type of review, the Committee concluded that it was important that the GAO perform the Performance and Accountability Review at the SBA. There are three primary reasons why the SBA was selected. First, the SBA is an agency in transition. At the request of Congress, the SBA has outsourced many of the tasks it used to perform in-house. The SBA is transforming itself from a programmatic agency to a regulatory agency. It is important that Congress closely monitor how the SBA is conducting such transition.

Second, there have been concerns raised to the Committee about how the SBA manages

its core programs. The Committee received several reports over the last year and a half from the SBA Inspector General and the GAO demonstrating serious problems with its core programs, including the 7(a) loan program, the 504 loan program and the 8(a) business development and contracting program. The Committee would be remiss if it:

- failed to identify whether or not there are systemic problems at the SBA;
- failed to use the resources available to map out viable solutions; and
- failed to act as a catalyst to motivate the SBA to address concerns with which it may be familiar.

Finally, the SBA is a small agency compared to behemoths like the Department of Housing and Urban Development or the Internal Revenue Service. The PAR is intended to be a prototype that the GAO can hopefully use to review all agencies. It makes sense that the GAO hone the PAR on a smaller agency before it takes on the challenging task of providing such an assessment of a large agency. We will hear more about the PAR from Comptroller General Walker.

But let me not mislead anyone, a PAR is challenging, a PAR is comprehensive, and a PAR is resource intensive. Not only for the GAO, but for the SBA and for the Committee. At the same time, it is abundantly apparent that the long-term benefits that will result from the review far outweigh any expenditure of resources in the short-term. This is about serving the small business community better today and tomorrow.

I'll give you an example of how small businesses will be better served by this review. The GAO report on the SBA's management of its information technology (IT) concludes that the SBA has failed to develop fully and implement policies and procedures to manage its IT system, including its IT investments, architecture, software development and acquisition, security and human capital. These shortfalls must be corrected now, as the SBA is currently implementing a new, comprehensive information system to collect, maintain and analyze the data on its programs. The recommendations of the GAO are an insurance policy that the SBA will not fall into the same trap as the Internal Revenue Service or the Health Care Financing Administration when it comes to the acquisition of information technology. These agencies spent millions upon millions of dollars to update their information systems, and ended up with nothing. We cannot let this happen time and time again in the Federal government. I know and everyone in this room knows that ensuring that the SBA is on the correct path now is the right thing to do, and it's the responsible thing to do.

This particular hearing will address three aspects of SBA's activities and the three GAO reports completed to date as part of the Performance and Accountability Review: (1) a report on the SBA's management of its information technology; (2) testimony on the SBA's human capital management and planning; and (3) two reports on the SBA's management of the 8(a) program. The Committee plans on holding a series of hearings as the GAO continues the PAR. At the conclusion of its review, the GAO will provide the Committee with a final, comprehensive assessment of SBA's operations and recommendations intended to hopefully make SBA a model for other executive agencies.

The intent of this entire process is to provide the SBA with constructive criticism and to focus its attention on the things upon which it needs to improve to more effectively and economically serve its constituents, our nation's small business community. If the SBA responds positively to the review and takes effective steps to correct the identified problems, then the review has been a success. I am confident that Administrator Alvarez will "take the bull by the horns" and will speak in her testimony about how the SBA is and will continue improving upon its operations as a result of these reports.

Indeed, the GAO reports we will hear about today point out some of the positive steps the SBA has already taken to correct the problems identified by the GAO. For example, the SBA agreed with many of the recommendations of the GAO in its report on information technology management and pledged to implement many of the recommended practices. I commend the SBA for realizing that these problems exist and for taking the initiative to correct them. There is more to be done, however, and the GAO will be going into detail on the other issues on which the SBA should be concentrating.

The purpose of today's hearing is not to ambush the SBA or to hold the SBA to unreasonable standards. These reports do not come as a surprise to the SBA. Over the last year, the GAO has consulted closely and regularly with the SBA on the findings that will be addressed today. I also understand that Senator Kerry's staff was briefed by the GAO over a week ago on the findings in these reports.

The purpose of this hearing is to document the findings of the reports and receive assurances from the Administrator, on the record, that the SBA plans to fix the problems detailed by the GAO. While I understand that other agencies may have similar problems to the SBA, that is wholly irrelevant to our discussion today. Poor operation is not an acceptable standard merely because you are an agency of the Federal government. In fact, if I have my way, hopefully the GAO will be able to conduct more PAR's to improve the overall operation of the government.

I look forward to hearing from each of our witnesses. To begin the hearing, we have David Walker, the Comptroller General of the General Accounting Office to provide us with an overview of the GAO's study of the SBA and his goals for proper oversight of Federal agencies.

**OPENING STATEMENT OF THE HONORABLE MICHAEL B. ENZI,
A UNITED STATES SENATOR FROM WYOMING**

Senator ENZI. Thank you, Mr. Chairman. I appreciate your holding this hearing today. I think that the Government Performance Accountability Review and the Act that created it are extremely important to the Government.

Before I make formal remarks, I, too, need to say a few words about our colleague, Paul Coverdell. Senator Coverdell was a great part of this Committee. In fact, he was a great part of anything that he served on. He was one of the work horses that was not up front taking the publicity but was pumping away at all of the internal efforts that were being done and usually wound up being a huge part of any solution.

He pursued legislation that benefited small businesses not only in Georgia but throughout the country. He was a hard worker. He never understood "no." He never understood when we said it cannot be done that way. He always persevered.

He was a good friend of mine as well as a mentor. I admired him greatly. He will be truly missed in the Senate as a whole, but more specifically as a Member of this Committee. He has done some exciting and diligent work here that cannot be matched.

I am looking forward today to learning more about the progress of the GAO's Performance and Accountability Review of the Small Business Administration. As you know, the SBA was one of the pilot agencies for the Government Performance and Review Act and their strategic plan has benefited from past GAO reviews. To my knowledge, GAO was generally pleased with the SBA's progress and cooperation during the GPRA process. I had meetings with them on that process earlier and then I followed that up, meeting personally with Administrator Alvarez during the GPRA process at the SBA offices to encourage their cooperation in getting a better understanding of the process as well as their agency. I also have been to a number of other agencies following up on this process, such as the Department of Labor, OMB, and the IRS.

I think that GPRA and PAR have the potential for being one of the great tools of government, right down to the employees, so that the employees can finally get some credit for the work that they are doing.

Therefore, I sincerely hope and am confident that the Small Business Administration will work actively with the GAO to find solutions to the concerns that the GAO has addressed in its three initial reports associated with this new Performance and Accountability Review. The Small Business Committee is committed to ensuring that the Small Business Administration stays on task in an efficient and effective manner when assisting small businesses nationwide.

Again, I want to thank Administrator Alvarez, Comptroller Walker, and the other witnesses for being here today. I look forward to hearing from each of you.

Chairman BOND. Thank you very much, Senator Enzi. It is always nice to have a real accountant on the Committee. I was just elected to the post. Senator Enzi earned the title of CPA. There is a real difference.

With that, let us turn now to our first witness, the Honorable David Walker, Comptroller General, U.S. General Accounting Office in Washington, D.C. Good morning, Mr. Walker, and welcome.

STATEMENT OF THE HONORABLE DAVID M. WALKER, COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, D.C.

Mr. WALKER. Thank you, Mr. Chairman, Senator Enzi. I appreciate the invitation to testify before you here today on the important issue of Congressional oversight. But before I do, I, too, would like to say a few brief words about Senator Paul Coverdell, given his recent and sudden death.

Senator Coverdell was one of my strongest supporters for appointment as Comptroller General of the United States. I knew him from my time as a partner and Global Managing Director with Arthur Andersen in Atlanta. His wife, Nancy, and mine have worked for Delta Airlines for years. My wife actually handled his personal travel when he was Director of the Peace Corps, and my daughter worked on one of his Senate campaigns.

Paul Coverdell was a true leader and a total gentleman. He made a difference every day and he will be remembered for years. We can only take comfort in the fact that he is now with his maker and in a better place, and so our thoughts and prayers go out to Nancy and Paul's family. We will not forget him.

Chairman BOND. Thank you.

Mr. WALKER. With that, Mr. Chairman, I would like to begin my testimony. As you know, you have asked me to focus on the importance of the issue of oversight and I am going to provide an overview context. I will also provide a bridge to the next panel of three GAO professionals who will be talking about specific projects that we are doing at the SBA.

But before I do, let me have a few brief introductory remarks. I think it is commendable that you are having this oversight hearing. There is a dire need for a renewal and a reinvigoration of the oversight process in both houses of Congress. This is an important beginning. Our Nation is at an important crossroads. The cold war is over and we won, and for the first time in decades, we face surpluses projected for a number of years in the future. These surpluses provide us with an opportunity to look beyond the immediate, to look over the horizon and to try to address some of the longer-term challenges that we face in the 21st century.

I have testified before about the demographic tidal wave that is going to hit this Nation and put tremendous budget pressures on us in the future. It is very important that we continue to review what government does, and how government does business, to make sure that the taxpayers are getting an appropriate return on their investment. While we may have plenty of money today, we are going to come under increasing budget pressures in the future because of known demographic trends. Our simulations show that. It is critically important.

So we need to continue to focus on oversight, and there are several ways in which we need to do so. This is a perfect time for the Congress to be looking at what the Government does and how the Government does business, and with that framework, I would like

to turn to the first board that I will use for discussion purposes. I assume, Mr. Chairman, that my full statement will be entered into the record.

Chairman BOND. We will make it a part of the record and we appreciate your calling that to our attention.

Mr. WALKER. Thank you, Mr. Chairman. First, I think there are four key points as an overview theme. This is the opportune time for the Congress to be looking at what the Federal Government does and how it does business. Many programs were created decades ago based upon past wants and needs. They may or may not make sense today, and they may need to be reengineered or otherwise modified. Elected officials ultimately will determine what the Government should do because that is your responsibility as an elected official. But the GAO can play an important role in getting you the facts, helping you understand the options, the pros and cons, to be able to make timely and informed judgments.

Now is the time to also reexamine and redefine beneficiaries of Federal programs. The key word here is targeting, targeting Federal policy, whether it be spending, loans, guarantees, tax incentives, regulatory actions, or otherwise, to those most in need in order to get the best return on investment. Also, targeting programs that get the best results or the best return on investment in similar areas.

The third area, the constant need to improve the economy, efficiency, and effectiveness of Federal Government operations. This is an ongoing task and requires the concerted effort of OMB, the departments and agencies, the Congress, the GAO, and the Inspectors General. We must bring modern management principles to government and enhance the use of technology while protecting personal privacy.

And last but certainly not least, we should continue to be vigorous in fighting fraud, waste, abuse, and mismanagement. But candidly, Mr. Chairman, the U.S. Government is the largest, most complex, most diverse entity on the face of the earth and it probably always will be. Fraud, waste, abuse, and mismanagement will never be zero. We should have zero tolerance for it, but it is very important that we focus on changing the way that government does business because that is where we are going to get a much higher return on our investment.

[The chart follows:]



Themes for Addressing Performance Problems

- Comprehensively reassess what the federal government does and how it does it
 - Reexamine and redefine beneficiaries of federal programs
 - Improve economy, efficiency, and effectiveness of federal operations
 - Attack activities at risk of fraud, waste, abuse, and mismanagement
-

The next chart will show there are three general areas where we think there are opportunities for oversight. One area deals with cross-cutting programs and efforts, whether it be economic development, health care, food safety, or counterterrorism.

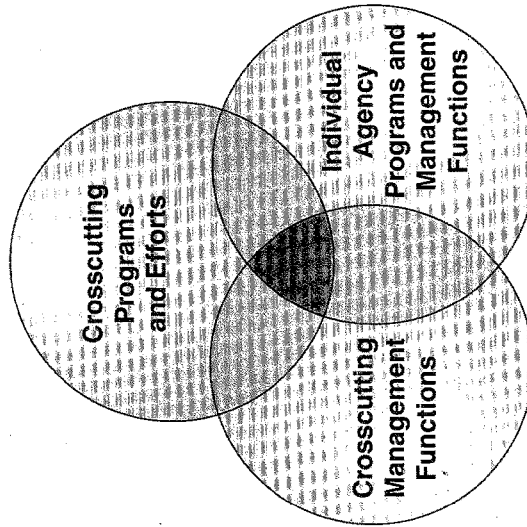
Another area deals with cross-management functions, whether it be strategic planning, financial management, information technology, human capital management, acquisition management, or client and customer service.

Another area deals with individual agency programs and management functions, where it is important that we look at major functions within an agency and major programs within an agency, and that we consider both for our performance and accountability series as well as our high-risk series, which we update every 2 years.

You can see there is a great intersection between these three and it is important that we work with the Congress on a bicameral and nonpartisan basis on all three of these tracks. In fact, I think that now is the time that both the GAO and the Congress need to review how we go about conducting studies, how we go about working together in order to make sure that the major programs and functions are being addressed on a reasonable cycle and within reasonable timeframes but yet to try to better manage the workloads, the workloads of the Congress, the workloads of the agencies, and, yes, the workloads of the GAO, because we all have limited resources.

[The chart follows:]

Multiple Oversight Tracks



Mr. WALKER. The next chart shows that we have an opportunity. We have an opportunity to build upon a management reform agenda that the Congress enacted in the 1990s. Whether it be financial management, information technology, or other areas, you can see that there are a number of major reforms that were enacted in the 1990s. The real key missing link to maximizing the Government's performance and accountability for the benefit of the American people is the area of people, or human capital. Much more attention must be focused administratively on that issue as well as ultimately legislatively when the issue is ripe.

[The chart follows:]



A Decade of Change: The Management Reform Agenda

- 1990: Chief Financial Officers Act
 - 1993: Government Performance and Results Act
 - 1994: Government Management Reform Act
 - 1995: Paperwork Reduction Act
 - 1996: Federal Financial Management Improvement Act
 - 1996: Clinger-Cohen Act
-

Mr. WALKER. We need to build on these reforms. We need to capitalize on the information contained herein in order to develop an oversight plan that addresses the three key oversight tracks and achieves a better workload balance for the Congress, the agencies, and the GAO. We stand ready to work with the Congress on a bicameral and nonpartisan manner to do so.

As you know, we have been conducting work at the SBA—for the last several years. We have issued approximately 20 reports on the SBA in a given year and that has occurred for several years and I am happy to answer questions with regard to that.

The SBA is in transition and we have had a number of pending requests to do work at the SBA. As you know, Mr. Chairman, by law, we are required to do work that is either mandated by the Congress or requested by a Congressional committee. I would like to note for the record that everything that we are doing falls into one of these two categories. I do, however, appreciate workload concerns on behalf of the Agency, the Committee, as well as the GAO in this regard.

It is important to note that the panel that follows me will provide examples of some of the work that we are doing right now at the SBA. There are three areas in particular that are going to be discussed. Stan Czerwinski, who has overall responsibility for the SBA program work, will discuss our findings in two reports that you have requested on the SBA's 8(a) program. They are being released today. Joel Willemsen, who has looked across government at information technology issues will discuss our report to you on information technology at the SBA and a report that is also being released today. And finally, Mike Brostek, who has been handling our human capital work, will discuss our recent work in the SBA's human capital area.

It is important to note that the SBA has had an opportunity to review these reports. We think that is important. We do not want to play "gotcha." That is not what good government is all about. We want to be professional, objective, fact-based, nonpartisan, non-ideological, fair, and balanced, and Mr. Chairman, I will endeavor and our people will endeavor to do that in everything that we do.

I cannot overstate my support for you and your colleagues and others to try to look to renew and reinvigorate the challenging task of serious oversight. It is important for the country. It is important for the taxpayers.

That concludes my prepared statement. Mr. Chairman, I would be happy to answer any questions that you or Senator Enzi might have.

Chairman BOND. Thank you very much, Mr. Walker.
[The prepared statement of Mr. Walker follows:]

GAO

United States General Accounting Office

Testimony

Before the Committee on Small Business
U.S. Senate

For Release on Delivery
at 9:30 a.m. EDT
Thursday
July 20, 2000

CONGRESSIONAL OVERSIGHT

Challenges for the 21st Century

Statement of David M. Walker
Comptroller General of the United States



Mr. Chairman, Senator Kerry, and Members of the Committee:

I appreciate the opportunity to testify before this Committee today to discuss the importance of Congressional oversight and our role in assisting you with this task. Let me commend you, Mr. Chairman, for taking on the important, but not always glamorous, task of serious oversight. Major review—both of existing laws and programs—and their implementation—and of agency management is hard work, but it can yield important outcomes. Reviewing existing programs to determine whether they can work better and to determine how an agency can perform its mission more economically, efficiently, and effectively is critical to maximizing the government's performance and assuring its accountability to the Congress and the American people. So that you can spend much of today's session hearing our findings about SBA, I will not go into great detail on some of the general points that I want to make regarding oversight. I have elaborated on all of these in previous statements.¹

As I have noted before, we stand at an important crossroads. The cold war has ended, and we won. In addition, after nearly 30 years of budget deficits, the combination of hard choices and remarkable economic growth has led to a budget surplus. We appear—at least for the foreseeable future—to have slain the deficit dragon. At the beginning of the year, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) showed both unified and on-budget surpluses over the next 10 years, and mid-year updates have only increased these surplus estimates. While this is good news, it does not mean that making hard choices is a thing of the past. Even if the budget surplus continues, it does not signal the end of fiscal challenges. Rather, these surpluses provide an opportunity to look beyond the 1-, 3-, or 5-year budget horizon of recent deficit debates and to focus on the longer term challenges as we move into the 21st century.

I have testified before on the importance of preparing for the demographic tidal wave facing both the United States and much of the industrialized world.² Social Security and Medicare are only the most obvious fiscal time bombs we face. Bills will also come due for a variety of other commitments and contingencies.

Facing long-term fiscal challenges is not our only obligation. Freed of the constraints of the cold war and chronic deficits, we move into the 21st Century with a golden opportunity—and a fiduciary obligation—to review the legacy of existing activities and programs with an eye toward weeding out or reforming those programs to free up resources that can address emerging needs. We now have an opportunity and obligation to take a comprehensive look at what government should do and how government

¹ *Managing in the New Millennium: Shaping a More Efficient and Effective Government for the 21st Century* (GAO/T-OCG-00-9, Mar. 29, 2000). *Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus* (GAO/T-AIMD-00-73, Feb. 1, 2000).

² *Medicare and Budget Surpluses: GAO's Perspective on the President's Proposal and the Need for Reform* (GAO/T-AIMD/HEHE-99-113, Mar. 18, 1999) and *Social Security Reform: What the President's Proposal Does and Does Not Do* (GAO/T-AIMD/HEHS-99-76, Feb. 9, 1999).

should do business. Future fiscal challenges call for prudent stewardship of our national government to ensure delivery of the services that Americans need versus what they want, and considering what we can collectively afford. This affordability issue is critical and complex given our current budget surpluses and the approaching demographic tidal wave. We may be able to afford certain actions or activities today, but we may not be able to tomorrow. In addition, consideration should be given to providing enough fiscal flexibility so future generations can make some of their own choices regarding government roles and resources.

The advent of budget surpluses does not lessen the need for more efficient and effective government and will continue to require difficult choices. Government performance and accountability need to be enhanced in order to get the most out of available resources and forge effective approaches to both the newly emerging and long-standing problems facing the nation. Legislation enacted in the 1990s has provided a statutory framework to help resolve long-standing management problems that undermined the federal government's effectiveness and efficiency and to provide greater accountability for results. The reforms that have been adopted have profound implications for what the government does, how it is organized, and how it performs. Nevertheless, these statutory reforms which focused on performance, financial, and information technology management did not encompass all areas of government management. Human capital issues are the missing link in the management and accountability framework. To meet the challenges of the 21st Century, the federal government will need to implement modern management practices for more efficient and effective delivery of government services; possess the effective management approaches and tools needed to develop and maintain high-performing organizations; and implement the human capital practices needed to support a focus on performance-based management.

We need to re-look at how GAO and the Congress do business in connection with oversight. We should forge a bicameral and non-partisan oversight agenda that will meet the needs of the Congress, capitalize on GAO's extensive skills and knowledge, and protect the public's interests. This approach will build on the management reforms of the 1990s that facilitate better management of the workloads of the Congress, GAO and federal agencies. It will also enable three tracks of oversight:

- ♦ Looking at programs and efforts that involve multiple agencies and cross committee jurisdictions;
- ♦ Examining, across government, various functions that are critical to high-performing organizations (e.g. strategic planning, Information Technology (IT), financial management, and human capital matters); and
- ♦ Overseeing the management and effectiveness of individual agencies.

A strategic oversight plan could facilitate balancing these different oversight tracks. Individual committees are well suited to address performance and other issues affecting individual agencies or programs as you are doing today. It may be more difficult under the current Congressional structure, however, to tackle federal mission areas that cut across agencies and committees. As part of our support to Congress, our approach will be one of constructive engagement in which we will work closely, in a nonpartisan and non-ideological manner with the House and Senate Committees on Appropriations, Authorization, Budget, and Oversight (as well as select committees) to get broad coverage on programs and issues.

Oversight of Crosscutting Programs and Efforts That Involve Multiple Agencies

I have noted previously that many mission areas—from low-income housing assistance to food safety to counterterrorism to economic development—are addressed by a wide range of mandatory and discretionary spending programs, tax expenditures, and regulatory approaches. Virtually all of the results that the government strives to achieve require the concerted and coordinated efforts of two or more agencies. Yet our work has repeatedly shown that mission fragmentation and overlap in the federal government are widespread. In addition, many federal programs were designed years ago to meet the needs and demands as determined at that time. It is important to periodically reexamine whether current programs and activities remain relevant, appropriate and effective. Unfocused and uncoordinated programs waste taxpayer dollars, confuse and frustrate program customers, and limit the effectiveness of federal efforts.³

In the Senate, the Governmental Affairs Committee has been a leader in looking across government in functional reviews. In addition, the Senate Budget Committee has been a leader in advocating crosscutting performance oversight and a re-examination of existing missions that cut across agency and committee jurisdictions. In seeking to assist these efforts we have offered a number of suggestions or ideas for congressional consideration including the creation of a “congressional performance resolution” linked to the budget resolution and a thematic approach to oversight.

We can assist the Congress in its crosscutting efforts by taking a longer, broader, more strategic and integrated approach to issues facing the Congress and the nation. To this end, I am realigning GAO to be consistent with our strategic plan and the nature of the work involved to better assist the Congress. The amount of value we add clearly will relate to how we deal with the increasing complexity of our work. For example, the subject of nuclear weapons is not just a Department of Energy issue. National security, public safety, environmental and contracting issues are all associated with our nuclear weapons complex.

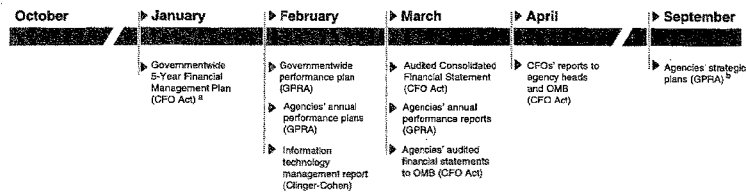
³ For a discussion of programs with mission fragmentation and overlap, barriers to interagency coordination, and potential approaches for improving the effectiveness and efficiency of crosscutting programs see our report, *Managing For Results: Barriers to Interagency Coordination* (GAO/GGD-00-106, March 28, 2000).

⁴ GAO's Strategic Plan, 2000-2005, Spring 2000.

Oversight of Crosscutting Functions Necessary to Develop and Maintain High-Performing Organizations

In the 1990s Congress and the federal government put in place a statutory and management framework that provides the foundation for strengthening government performance and accountability. GPRA required agencies to develop strategic and annual performance plans and annual performance reports that tell taxpayers what they are getting for their money. The CFO Act and related legislation created a structure for more businesslike management and reporting of the government's finances. The Clinger-Cohen Act and the Paperwork Reduction Act required agencies to take an orderly, planned approach to their information technology needs. Figure 1 is a time line of GPRA requirements and other laws that make up the statutory framework to improve the performance, management, and accountability of the federal government, including the CFO Act and the Clinger-Cohen Act.

Figure 1: Time Line for Major Reports



^aAlthough required to be submitted by January 31, the governmentwide 5-year financial management plans are generally issued in June or July.

^bGPRA requires agencies' strategic plans to cover a period of at least 5 years forward from the fiscal year in which submitted. They are to be updated at least every 3 years and are submitted to OMB and Congress.

Source: GAO review of statutes.

Congress has helped focus attention on the need for effective implementation of this framework through hearings and other communication with agencies, including consultations to ensure that in strategic planning, agencies' missions are focused, goals are specific and results-oriented, and strategies and funding expectations are appropriate and reasonable. Continued Congressional interest and oversight is important if this framework is to meet its potential to support and promote more results-oriented government and assist the decisionmaking processes in both the Executive Branch and Congress. We will continue to assist this transition through assessing agencies' progress and identifying opportunities to strengthen government accountability and performance.

We have seen some progress in agency efforts to manage more economically and efficiently. However, more needs to be done to achieve real and sustained improvements to address the nation's challenges. Implementing the management reforms will help contain costs, provide services that meet the public's needs, and enhance accountability.

The job in the 21st century is to continue to improve and to translate the intended reforms into a day-to-day management reality across government. Becoming high-performing organizations requires a cultural transformation in government agencies. Hierarchical management approaches will need to yield to partneural ones. Process-oriented ways of doing business will need to yield to results-oriented ones. Siloed organizations—burdened with overlapping functions, inefficiencies, and turf battles—will need to become integrated organizations if they expect to make the most of the knowledge, skills, and abilities of their people. Finally, internally focused agencies will need to focus externally in order to meet the needs and expectations of their ultimate clients—the American people.

Our work has consistently shown that many agencies face long-standing and substantial challenges to further progress. The major challenges that agencies face in becoming high-performing organizations include:

- ◆ Adopting an effective results orientation,
- ◆ Strengthening financial management and related controls to better support decisionmaking and demonstrate accountability,
- ◆ Improving the use of information technology to modernize services and achieve results, and
- ◆ Developing and implementing modern human capital practices.

The effective implementation of the statutory framework to improve the performance, management and accountability of the federal government, although important, is not an end in itself. Rather, the implementation of the framework is the means to an end—improved federal performance through enhanced executive branch and congressional decisionmaking and oversight. Traditionally, the danger to any management reform is that it can become a hollow, paper-driven exercise, where management improvement initiatives are not integrated into day-to-day activities of the organization. Performance improvements within an agency will not occur just because, for example, the agency has published a strategic plan or the results of an audit of its financial statements. Performance improvements occur only when congressional and executive branch decisionmakers use information resulting from these reforms to help inform decisions and improve the performance and accountability of the federal government.

Adopting an Effective Results Orientation

GPRA has the potential to help Congress and the executive branch ensure that the federal government provides the results that the American people expect and deserve. It also has the potential, if properly implemented, to help improve the public's respect for and confidence in their government. Substantial efforts have been undertaken and progress clearly made. However, much of GPRA's potential remains unrealized.

GPRA implementation is at a critical stage for agencies and Congress. In the almost 3 years since the requirements of GPRA were implemented across the executive branch, Congress has been provided with a wealth of new and valuable information on the plans, goals, and strategies of federal agencies. The Senate Committee on Government Affairs has acted to open an important dialogue with agencies and to foster increased agency attention to these areas. August 17, 1999 letters to agencies summarized the key management issues identified by GAO and the Inspectors General and asked each agency to indicate how it will address its high-risk areas and major management challenges. Committee staff held bipartisan meetings with the agencies to further discuss these issues and needed actions.

The issuance of the first performance reports in March 2000 represents a new and potentially more substantive stage in the implementation of GPRA. The performance reports offer the first opportunity to systematically assess the agencies' actual performance on a governmentwide basis and to consider the specific steps that can be taken to improve performance and reduce costs. These annual reports on program performance can also help congressional committees monitor and select programs for more detailed reviews. The first performance reports, and thus the completion of the first full planning and reporting cycle of GPRA implementation, also suggest that it is an appropriate point to examine how GPRA can be more fully integrated into executive branch and congressional decisionmaking. In our summary assessments of the fiscal year 1999 and fiscal year 2000 annual performance plans, we highlighted a consistent set of areas that we believe have the greatest potential for improving the usefulness of GPRA to congressional and executive branch decisionmakers.⁵

For example, much more progress is needed in linking GPRA performance goals to agency budget presentations, so that the performance consequences of budget decisions can be clearly understood. Similarly, technology and human capital planning and decisionmaking are too often not integrated into considerations of programmatic results. In our assessment of the fiscal year 2000 annual plans, we found that most plans did not sufficiently address how the agencies will use their human capital to achieve results. In

⁵ *Managing for Results: An Agenda To Improve the Usefulness of Agencies' Annual Performance Plans* (GAO/GGD/AIMD-98-228, Sept. 8, 1998); and *Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans* (GAO/GGD/AIMD-99-215, July 20, 1999).

order for GPRA to be truly effective, agencies must link their performance measurement and reward systems to the goals and measures included in their strategic and performance plans.

We have seen that integrating GPRA into agency operations does not come quickly or easily. It requires dedicated and persistent leadership not only within agencies but also by OMB and the Congress. Agencies are responsive to efforts their Congressional overseers see as important. We have made recommendations in each of the last 2 years intended to help congressional and executive branch decisionmakers ensure that GPRA is effectively implemented and used.

Concerted and continuing congressional oversight is key to addressing the federal government's persistent performance, management, and accountability problems. One of the lessons drawn from the history of deficit reduction efforts during the 1990s is that the use of organizing themes can facilitate oversight and the re-examination of federal agencies and programs. With this in mind I have recently used four broad themes to discuss the significant performance problems in federal programs and agencies that our work has identified. Let me touch on each of these briefly:

Attack activities at risk of fraud, waste, abuse, and mismanagement Over the years, our work has shown that federal functions and programs critical to personal and national security, ranging from Medicare to weapons acquisition, have been hampered by daunting financial and program management problems, exposing the federal government to waste and abuse.

Improve the economy and efficiency of federal operations Effective congressional oversight can improve federal performance by examining whether agencies have the best, most cost-effective mix of strategies in place to meet their goals.

Comprehensively reassess what the federal government does and how it does it Many federal programs—their goals, organizations, processes, and infrastructures—were designed years ago to meet the needs and demands as determined at that time and within the technological capabilities of that earlier era. It is important to periodically re-examine these programs and activities to see whether they remain relevant and appropriate. This re-examination must include the effectiveness of the tools—such as spending, loans, tax incentives and/or regulations.

Redefine the Beneficiaries of Federal Government Programs Congress originally defines the intended beneficiaries for any federal program or service based on certain perceptions of eligibility and/or need. Periodic oversight can be an effective means to ensure that limited resources remain properly targeted in light of changing conditions, current program operations, and overall congressional priorities.

Strengthening Financial Management for Decisionmaking and Accountability

Without timely and accurate information on the full costs of programs, the government cannot adequately ensure accountability, measure and control costs, manage for results, nor make timely and fully informed decisions about allocating limited resources. However, such information has historically not been routinely available across government.

The CFO Act and related financial management improvement legislation laid the foundation for the federal government to provide taxpayers, the nation's leaders, and agency program managers with reliable financial information through audited financial statements. In addition to requiring annual audited financial statements, the CFO Act sets expectations for agencies to build effective financial management organizations and systems and to routinely produce sound cost and operating performance information throughout the year. The combination of reforms ushered in by GPRA and the CFO Act will, if successfully implemented, generate the necessary foundation to effectively run performance-based organizations. Some progress has been made by individual agencies in preparing annual financial statements. Of the 24 CFO Act agencies, 6 received an unqualified or "clean" opinion on their financial statements for fiscal year 1996, 11 for fiscal year 1997, 12 for fiscal year 1998, and 15 received an unqualified opinion for fiscal year 1999.

Clean audit opinions, however, are not the end game; modern financial systems and sound internal controls are essential. While clean audit opinions are essential to providing an annual public scorecard, they do not guarantee that agencies have the financial systems needed to dependably produce reliable financial information. Modern systems and sound controls are essential to reach the end goal of useful, relevant, reliable day-to-day financial information to support ongoing management and accountability. Although clean audit opinions can be produced by "heroic efforts", such efforts are not the solution.

Improving the Use of Information Technology to Achieve Results

Information technology (IT), if leveraged properly, can be an effective tool for high quality, cost effective government services. Information technology is at the heart of improving accountability and performance. The government is heavily dependent on computer systems and networks to implement vital public services supporting national defense, revenue collections, and social benefits. To the extent that billions in planned annual obligations for information technology can be spent more wisely, federal programs will operate more efficiently and effectively. However, the global expansion of information technology has resulted in significant new information security and privacy

threats to our information networks and technology infrastructure. We have discussed these issues in a number of reports.⁵

Many agency efforts to improve IT management are still in the beginning stages, and it is clear that more needs to be done. At the same time, agencies are now beginning to address new IT investment needs that were deferred because of their recent, and appropriate, focus on the Year 2000 conversion problem. As a result, we anticipate that agencies will begin major modernization programs and large-scale IT projects in the very near future, making the need for fundamental improvements in the way agencies manage IT investments even more urgent.

Develop and Implement Modern Human Capital Practices

The government's human capital management is the missing link in the statutory and management framework that Congress and the executive branch have established to provide for a more businesslike and results-oriented federal government. Yet, federal employees are the ones who will make the principles of performance management work for government. Federal employees should not be viewed as costs to be cut, but as assets to be valued. Only when the right employees are on board and provided the training, technology, structure, incentives and accountability to work effectively is organizational success possible. Modern strategic human capital management recognizes that employees are a critical asset for success and that an organization's human capital policies and practices must be designed, implemented, and assessed by how well they support the organization's mission and goals.

Human capital reforms will be necessary to fully benefit from the performance-based management and accountability framework that Congress has created. I am optimistic that as the government's understanding of the importance of people to effective government grows, a new consensus on human capital will emerge and any needed and appropriate legislative reforms will be accomplished. However, I am also strongly convinced that we should not wait for the day when these reforms will arrive. Instead, we can and should take steps to align our human capital management policies and practices with modern performance management principles, within the constraints imposed by current law.

The Oversight Agenda, Agency-Based Oversight and SBA

As I mentioned earlier, the change in our fiscal and security positions offers a window to take a longer and broader look into the future. In addition, as the management agenda enacted over the last decade begins to bear fruit, this is an opportune time for the Congress to think about how to craft a strategic approach to oversight that best leverages this new information. Such an approach would permit both individual committees and the Congress as a whole to set priorities for oversight—and could

⁵ *High Risk Series: Information Management and Technology* (GAO/HR-97-9, Feb. 1997), *High Risk Series: An Update* (GAO/HR-99-1, Jan. 1999), *Information Security Risk Assessment: Practices of Leading Organizations* (GAO/AIMD-00-33).

ensure systematic coverage of a broad range of agencies and issues over some reasonable time period. It would also help us help you. Good oversight support—whether as part of a comprehensive look at a single agency—like SBA—or a crosscutting look across agencies at mission or function—is resource-intensive and necessarily competes with other important congressional requests for our limited resources. A multi-year plan permits us to program our work in a way that provides the greatest assistance. I believe it would also help Congressional committees and the Executive Agencies balance and plan the workload such oversight imposes on them.

Mr. Chairman, let me reprise some important points. Serious oversight is hard for many reasons. For one thing, it's often not fun. But taking a good hard look at whether a program or activity still makes sense in the modern world; looking at how well a program or a tool works to achieve its goals; asking questions about organization, processes and tools is not easy, fun or glamorous. And all too often the press stories on this work get it wrong. Serious oversight means pulling together information from different sources and asking difficult questions. Acting on the results of that oversight means making difficult decisions. We at GAO support you and your colleagues in the belief that difficult as it is, this kind of constructive examination of what government does, and how, is absolutely critical for this coming century. I am well aware that there will always be disagreements about the role of government and about the best approach to meeting a problem. However, the debate should be carried on using the best information available. Our role is to help provide you with that kind of information. We do that in keeping with professional standards and our core values of accountability, integrity and reliability. We also believe that the most successful oversight is done on a bipartisan and bicameral basis—without ignoring policy disagreements. The goal is to end up with a government that does the important things well.

As you know, we also seek to provide Congress with a broad perspective on a number of performance issues through our High Risk and Performance and Accountability Series. Consistent with our beliefs about the importance of consistency and transparency, in the coming weeks we will be releasing for comment a document discussing the criteria and process for determining performance and accountability challenges and high-risks.

As you turn to SBA from this broader discussion of oversight in general let me note that by assisting the small business sector, SBA fits into a broader structure of government assistance to economic growth. While SBA's role in economic development must be viewed in this broader context, it is also important to look at the agency's programs and operations. I commend this committee for taking the initiative to look at a single agency by examining its underlying functions that affect programs and how they operate and affect the agency's ability to meet its mission. We believe that changes at SBA make this an appropriate time for increased attention on SBA. These changes include (1) the ongoing transition of part of SBA's workforce from loan making and servicing to overseeing the efforts of lenders and other private sector partners; and (2) the agency's outreach to new markets, such as smaller businesses located in low- and moderate-income and rural areas.

Our workload at SBA has increased; we have already issued 22 products on SBA this year. In addition to the work we will testify on today, we have 8 assignments ongoing for this committee. These assignments covering such SBA programs as 7(a) loans, Small Business Lending Companies, and Women's Business Centers; as well as such functional areas as financial management, and budgeting. We also have work underway for other congressional requesters, including our review of the impact of government procurement reform on small business for multiple requesters and our review of information system controls at SBA for the House Committee on Government Reform and the Senate Committee on Governmental Affairs. Your goal of a coordinated oversight plan would enable better workload planning for Congress, the agencies, and GAO.

Pursuant to your request, Mr. Chairman, we are doing additional work at SBA and will be conveying the results of that work to you over the coming months. In early 2001, as part of our Performance and Accountability Series, we will provide an overall report on SBA.

The panel that follows me will provide good examples of both crosscutting and programmatic work. Stan Czerwinski, who has overall responsibility for our SBA program work, will discuss the findings from two reports you requested on SBA's 8(a) program that are being released today. Joel Willemssen, who has looked across government at information technology issues, will discuss our report to you on IT at SBA that is also being released today. Finally, Mike Brostek, who has been on the cutting edge of GAO's human capital work, will discuss the results of our work on SBA's human capital management.

Mr. Chairman, I can not overstate my support for you and your colleagues on both sides of the aisle and in both houses for reinvigorating the challenging task of serious oversight. This concludes my prepared statement. I would be pleased to answer any questions you or the other members of the Committee may have at this time.

Chairman BOND. When I ran for the post of State Auditor in Missouri, I promised to move State auditing in Missouri from a foot and tick operation to a performance review and I found out very quickly as we hired a staff of CPAs and brought in people with some management expertise that some of the agencies who we reviewed looked at us with the same skepticism that the dental patient looks at the dentist who promises a root canal is ultimately going to make him feel better. There was a great deal of skepticism, and so I am used to that. We believe that performance reviews can be very helpful.

Administrator Alvarez will be stating in her testimony, and she has mentioned to me in the past, that the GAO has or is conducting 41 reviews of SBA programs or processes. Is this correct, and what would explain the number of the GAO reviews?

Mr. WALKER. We have about 20 reviews ongoing right now. We issue about 20 reports a year on the SBA and we typically have about 20 that are in process that typically get issued the next year. Of the 24 reviews that we have underway, 10 of them relate to governmentwide issues in which we are looking at an SBA angle. Fourteen relate specifically to the SBA. All of them are either a mandate or a Committee request. We are not doing any self-initiated work in this area. I think, clearly, it does place a considerable workload on the Committee, on us, and the SBA, which is one reason I think we want to look at the review process of how we go about oversight and balance that workload better. But those are the facts, Mr. Chairman.

Chairman BOND. You have indicated that the GAO has shared this information with the SBA, they have had a full opportunity to comment on it, and you will be including their responses in your reports. Does the GAO stand behind the reports as fair, objective, and independent?

Mr. WALKER. We do, and frankly, I think we have a constructive relationship with the SBA. I think Administrator Alvarez can testify to that.

Chairman BOND. Would you elaborate on that for us?

Mr. WALKER. Well, she and I, for example, met within the last several months to talk about the many projects that we have underway and she expressed the understandable concern that we have a lot going on at the SBA. This obviously is a workload problem for us, as well. We had a very candid and constructive conversation about how we go about our work, what we are doing, and how we do it, and we have talked periodically.

My view is that while we have got a lot going on and there are clearly workload implications, we are being true to our core values and we have a constructive working relationship with the SBA. I think the SBA has been responsive to us. I think the SBA has, in most cases, agreed with our recommendations, and I think, in most cases, they have also moved to implement our recommendations within a reasonable period of time. I consider that a win-win, quite frankly.

Chairman BOND. The Performance and Accountability Review does put an extra burden on the SBA. Do you think that the long-term benefits of that kind of review will outweigh the short-term drain on resources?

Mr. WALKER. Well, I do, but there are timing differences, Mr. Chairman. As you know, sometimes you have to make an investment in order to get the return, and I appreciate the fact that we, the Committee, as well as the SBA, are making significant investments in time and other resources now, but I have no doubt that they will generate a return that far exceeds the cost.

Chairman BOND. You have mentioned that the GAO is going to provide Congress with a broad perspective on a number of performance issues through your high-risk and performance and accountability series and that you will provide an overall report on the SBA as part of your series. What is your approach to doing work at other agencies beyond the SBA for the high-risk and performance and accountability series?

Mr. WALKER. Mr. Chairman, we are currently looking at that whole area right now and we will be publishing a proposal for comment within the next several weeks that will lay out, for example, what we see as the key functions that have to be looked at across government. Obviously, there are key programs, as well, and we will be laying out proposed criteria for what it takes to become high risk and what it takes to get off the high-risk list. In the past we have always had to employ our professional judgment and we always will have to. However, I feel it is important that the GAO have clearly defined, consistently applied, transparent, and well-documented criteria so that people can understand what the rules are and, therefore, be motivated to keep off the list or to get off the list.

We are also planning to focus on functions and programs rather than departments or agencies per se because most departments and agencies have strong suits and weak points. Many departments and agencies are trying to make progress in areas because they may have been challenged for years and it takes time to be able to effectively address all those challenges.

Chairman BOND. With my other role on the Appropriations Committee, I know something about high-risk agencies and high-risk programs, but we will save that for another day.

Senator Enzi, do you have questions for Mr. Walker?

Senator ENZI. Thank you, Mr. Chairman. Just a couple of quick ones because those of us, of course, serving on this Committee understand that small business is the most important function in the whole United States. We are not prejudiced. In spite of all the newspaper articles that show all these multibillion-dollar mergers of organizations that obviously are not small business, most of the businesses in this country and, of course, all of the businesses in Wyoming, are small business. So I appreciate the effort that the GAO is exerting with the Small Business Administration and this oversight. But for those who might not be on the Committee who might have an interest, can you give us a little background on how they became a pilot agency in the PAR process?

Mr. WALKER. We are always trying to develop new tools and methodologies to try to help us better serve the Congress, and obviously our job is to maximize performance and assure accountability. So we were experimenting with some new tools and approaches and methodologies. We communicate with our clients constantly, committee chairs, ranking members, and other leaders,

and in doing that, Senator Bond and others expressed interest in the potential application of this to the SBA.

The SBA is an agency in transition. It has many different programs. In some cases, it has created programs on its own. In some cases, Congress has created the programs. In fact, one of their challenges is they have a proliferation and some of that is Congress' doing rather than the SBA's doing.

Chairman Bond had thought that it might make sense for us to focus on a few areas as a beta, as a prototype. We are also doing this at other agencies, and quite frankly, we are going to have to do it over a period of time. You cannot do it all at once. We do not have the resources and the agencies do not have the resources. In addition, the Committee does not have the resources to do it all at once.

Senator ENZI. I appreciated your comment, too, in your first chart where you talked about what the Government does and how the Government goes about its business. I have changed that slightly to what the Agency does and how we can tell when they have got it done. That is one of the things that the American people are looking for, is some finality, some method of measuring, some method of knowing what their agencies are really about and that they are achieving things, and I think that is really the potential of GPRA, too.

You mentioned that there needs to be more focus on people, more on the human capital. Could you expand on that just a little bit?

Mr. WALKER. Ultimately, people are what make things happen. People represent the most valuable asset of the U.S. Government. Government is a knowledge business. The Federal Government faces an emerging crisis in the people area. The Federal Government has downsized significantly, but it is how it has gone about that downsizing that in many cases has placed agencies at risk. Broad-based RIFs, hiring freezes, cutting back on training, cutting back on enabling technology, contracting out without necessarily having the right kind of people with the right skills and knowledge to manage cost, quality, and timeliness, has occurred at a number of agencies.

I think that we face a major challenge in the Government where a significant percentage of the Federal workforce is going to be eligible to retire over the next 5 years, where we have increasing competition for talent, to attract and retain top talent, that the skills that are required to meet the public's demands, needs, and expectations are changing.

It is a critically important area that I am speaking out on and that we are trying to lead by example with regard to administrative actions at the GAO. As you may know, Senator Enzi, I had global responsibilities for human capital for one of the top consulting firms in the world.

I might add one other point. I think government as a whole needs to undergo a cultural transformation. From my perspective, and I have been in both the public and the private sectors, government in many cases, and this is a generality, I am not talking about a specific agency, tends to be too hierarchial, too process-oriented, too siloed or stovepiped, and too inwardly focused. We need to transform over a period of time to be more partnerial,

which means more empowerment and more accountability, more results oriented, focused on outcomes, not outputs, more integrated, teaming, crossing boundaries, departments, agencies, Federal, State, local, international, to address challenges, and more focused externally, including on what the taxpayers want, need, and deserve, and a lot of that has to do with performance and accountability. That is what we are focused on.

That is a huge cultural transformation. It is going to take years, but it will pay major dividends for Federal employees, for the Federal Government, and for the taxpayers.

Senator ENZI. You have just stated the benefits of GPRA very well. Thank you.

Chairman BOND. Thank you very much, Mr. Walker. We appreciate your testimony. We will keep the record open and as the hearing goes on, there may be questions that we will submit to you in writing for your reply. We do very much appreciate your being with us and we thank you and dismiss you, if you wish, if you have other responsibilities, or you are welcome to stay.

Chairman BOND. Now I would like to call the second panel, the members of the GAO who are responsible for the actual audit projects.

Mr. Stanley J. Czerwinski is Associate Director of Housing and Community Development Issues, Resources, Community, and Economic Development Division of the GAO. Mr. Joel C. Willemssen is Director of Civil Agencies Information Systems, Accounting and Information Management Division of the GAO. Mr. Michael Brostek is Associate Director, Federal Management and Workforce Issues, General Government Division of the GAO.

Welcome, gentlemen, and Mr. Czerwinski, if you would begin, please.

STATEMENTS OF STANLEY J. CZERWINSKI, ASSOCIATE DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, D.C.

Mr. CZERWINSKI. Thank you, Mr. Chairman, and thank you, Senator Enzi. We are here to discuss two reports that you requested and released today on the SBA's 8(a) program.

As you know, the 8(a) program is the Federal Government's primary tool for developing small businesses owned by socially- and economically-disadvantaged individuals. There are 6,000 8(a) firms and these firms are eligible for contracts from Federal agencies. These agencies set aside about \$6 billion a year in contracts. The firms are also entitled to technical assistance and management training. However, we are unable to estimate the extent of that technical assistance and management training because the SBA does not have that capability.

I would like to highlight two points from our reports today. The first is that when we did our review, we found that the SBA's efforts are not aligned with the needs of the 8(a) firms the program is designed to serve. Second, we found that the SBA lacks the information it needs to direct its efforts and to tell it how well the program is working.

To elaborate on the first point, as the chart to your right shows, many 8(a) firms have received few or no contracts. In fact, of firms in the program for at least 2 years, about a quarter have never gotten a contract at all and over half have obtained no more than one or two contracts their whole time in the program.

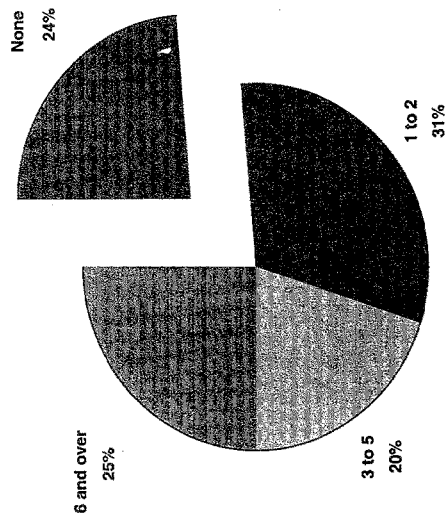
Perhaps even more significant is the fact that a very small number of 8(a) firms have garnered very large percentages of 8(a) contract dollars. For example, in fiscal year 1998, about 3 percent of the 8(a) firms received about 50 percent of the 8(a) dollars, while approximately 50 percent of the firms got nothing at all. This is not a new problem. We reported it as early as 1992. The Inspector General has reported on it since then as well. And the SBA itself has even listed this issue as a material weakness in its Financial Integrity Act reports since 1994.

SBA officials agree the concentration of contracts is a problem. However, they added that the program regulations do not require or guarantee that all firms get contracts. They also noted that the SBA relies on Federal agencies to make the contracts.

In addition, SBA officials told us that there are more ways to measure the success of the 8(a) program than just contracts. For example, a prominent measure that the SBA uses to gauge the success of the program is the technical assistance and the management training it provides. However, the SBA has never surveyed its customers, the 8(a) firms, to determine their view on what makes the 8(a) program successful.

[The chart follows:]

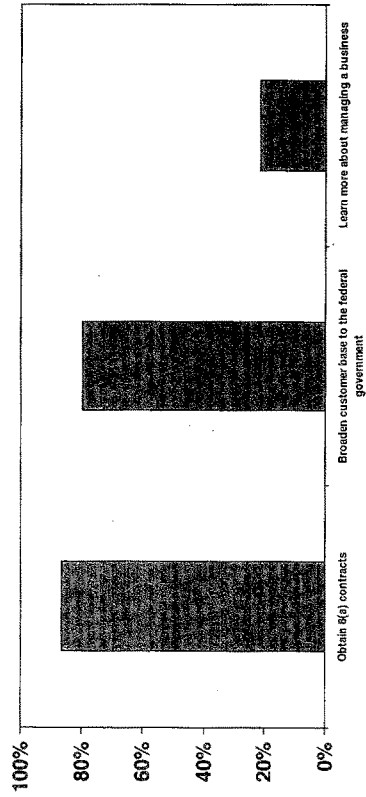
GAO Many Firms Have Received Few or No 8(a) Contracts



Mr. CZERWINSKI. We surveyed 1,200 8(a) firms to find out their expectations and their needs. As the chart to your right shows, over 80 percent of the firms joined the 8(a) program to obtain Federal contracts. As you can see, firms cared little whether the contracts were explicitly set aside by 8(a) or with Federal agencies in general. The bottom line is, the 8(a) firms pretty much just want Federal contracts. On the other hand, only about 20 percent of the firms told us that they joined the 8(a) program to get technical assistance and management training.

[The chart follows:]

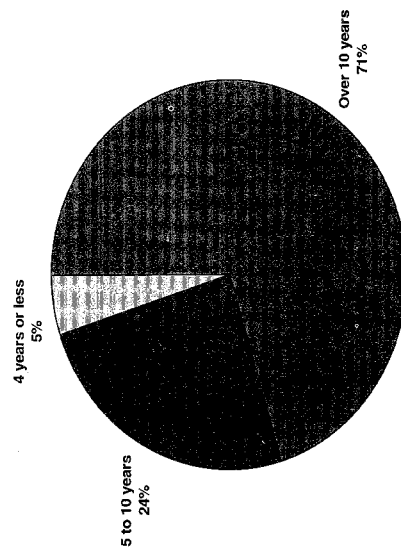
GAO Most Firms Joined the 8(a) Program to Obtain Federal Contracts



Mr. CZERWINSKI. Our survey shows one reason this may be happening is that 8(a) firms, by and large, have substantial business experience. As the chart to your right shows, almost three-quarters of the 8(a) firms have owners with over 10 years of business experience. For example, one survey respondent told us that he had 20 years of business experience. He joined the 8(a) to get help finding contract opportunities, but instead, what the SBA offered him was rudimentary training that he told us he did not need.

[The chart follows:]

GAO Most Owners Have Substantial Management Experience



Mr. CZERWINSKI. The SBA has agreed with our recommendations to periodically survey the 8(a) firms. This will help them better understand what their firms need and how to meet those expectations. The SBA has also agreed that it should place a high priority on helping increase contract opportunities.

This brings me to the second point: The SBA currently lacks information it needs to direct its efforts to help its clients; it also lacks the information it needs to measure program effectiveness. In addition to lacking data on customers' needs and expectations, there are two other areas that I want to point out today.

First, the SBA does not have information systems in place to track the assistance it provides to 8(a) firms or the results of that assistance. This is not a new problem. We also reported back in 1992 that the SBA lacked these systems and the SBA agreed to take action. After several stops and starts, the SBA piloted such a system last year. However, the pilot has shown some problems that really have to be worked out before it can go online.

The other area that lacks vital information is contracts. The SBA does not know which firms are getting contracts and which are not. This is because when the SBA delegated contract authority to agencies, it no longer required those agencies to report contract activity directly to the SBA. Because the SBA is still working through how it would get needed contract data, it currently lacks information essential to managing the 8(a) program.

As you can see, a root cause of some of the issues that I have described is that the SBA lacks needed information systems. Joel Willemssen, the next GAO witness, directs all of the GAO's work on information technology. He will discuss the SBA's information systems in more detail.

However, before I turn it over to Joel, I would like to close by saying that throughout the course of our work, we have shared our findings with the SBA. In fact, last month, we provided drafts of the reports being released today. The SBA has agreed with the findings. They have also promised to act on our recommendations. We believe that such actions should lead to significant improvement in the 8(a) program.

That concludes my statement, Mr. Chairman. I would be glad to respond to any questions you might have.

Chairman BOND. Thank you very much, Mr. Czerwinski.

[The prepared statement and attachments of Mr. Czerwinski follow:]

GAO

United States General Accounting Office

Testimony

Before the Committee on Small Business, U.S. Senate

For Release on Delivery
9:30 a.m., EDT
Thursday
July 20, 2000

SMALL BUSINESS**Expectations of Firms
in SBA's 8(a) Program
Are Not Being Met**

Statement of Stanley J. Czerwinski, Associate Director,
Housing and Community Development Issues,
Resources, Community, and Economic Development Division



GAO/T-RCED-00-261

Mr. Chairman and Members of the Committee:

We are here today to discuss our reviews of the Small Business Administration's (SBA) 8(a) program. The 8(a) program is one of the federal government's primary vehicles for developing small businesses owned by socially and economically disadvantaged individuals. Firms in the program are eligible for contracts that federal agencies set aside for 8(a) firms and may receive technical assistance and management training from SBA. In the 8(a) program, SBA has to consider the needs of 8(a) firms seeking to obtain federal contracts that may help their small business succeed along with the needs of federal agencies seeking to maximize their procurement dollars. In fiscal year 1999, about 6,000 small businesses participated in the program, and \$6.2 billion was awarded in 8(a) contracts.

Our testimony is based on two reports, prepared at your request, that are being released today—one on the overall focus of the program and one addressing the 8(a) information system.¹ We would like to highlight two main points that our reports make about the 8(a) program.

- First, SBA's efforts are not aligned with the needs or expectations of 8(a) firms. SBA has never surveyed its customers—the 8(a) firms—in a meaningful way to determine what experience they have or what their needs are. We surveyed 1,200 firms participating in the 8(a) program and found that firms want SBA to provide them with more assistance that will help them obtain contracts.² Firms did not place a high priority on learning to manage a business because a large majority of the firms had owners with over 10 years' experience managing a business. In providing assistance, we found that SBA has emphasized business management skills, even though most firms joined the program to obtain 8(a) contracts. This misalignment of SBA's efforts and the needs of 8(a) firms has been further compounded by the fact that most 8(a) contract dollars go to a small number of firms. We recommended that SBA take a number of actions, including periodically surveying 8(a) firms, to better meet the needs of the firms in the program. SBA agreed with our recommendations.
- Second, SBA has no way to tell how well the 8(a) program is working. Almost a decade ago, we first reported that the agency did not know the full extent of business development assistance provided for firms. Yet, SBA still does not have a tracking system in place. SBA did pilot a Business Assessment Tool in 1999 that would evaluate firm's business development needs, but at the time of our review, agency officials were still evaluating the results of the pilot. Changes in the contracting process have undermined the accuracy of SBA's contracting data. As a result, SBA

¹See *Small Business: SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts* (GAO/RCED-00-196, July 20, 2000) and *Small Business: SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission* (GAO/RCED-00-197, July 20, 2000).

²We conducted a nationwide mail survey of 1,200 firms randomly selected from SBA's database of 5,432 active 8(a) firms. Our survey response rate was 71 percent and our results can be generalized to the entire population of active 8(a) firms as of September 30, 1999.

lacks the ability to measure the 8(a) program's performance in such basic areas as determining the level of training provided, whether that training matched firms' needs, or even the amount of 8(a) contracts that firms obtained. We recommended, several steps that SBA agreed it should take to ensure that it collects data on appropriate performance measures.

Background

SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small business and by helping businesses and families recover from natural disasters. SBA's new budget authority for fiscal year 2000 is \$886 million. SBA administers small business programs such as the 7(a) loan program, which provides loan guarantees to small business owners unable to secure financing on reasonable terms through normal lending channels, and the 8(a) program, through which qualified firms are eligible for federal contract set-asides. SBA also provides small businesses with assistance through the agency's partnerships and business centers. SBA's disaster loan program offers financial assistance to businesses and families trying to rebuild in the aftermath of a disaster.

The Small Business Act, as amended, authorizes the 8(a) program. The purpose of the program is to help eligible small socially and economically disadvantaged businesses compete in the American economy through business development activities. Toward this end, the Congress made three major legislative attempts—in 1978, 1980, and 1988—to improve SBA's administration of the 8(a) program and to emphasize its business development aspects. The Congress enacted the 1988 act and subsequent amendments partly because the program was not developing firms in the program into viable businesses. To remedy this and other problems, the 1988 act made a number of changes to improve the 8(a) program's organization and participation standards, business development activities, and overall management.

To be certified by SBA for participation in the 8(a) program, applicants must show that their firm is owned by socially and economically disadvantaged individuals, meets SBA's small-business-size standards, and has a reasonable potential for success. Firms in the program are eligible for contracts that federal agencies set aside for 8(a) firms. However, 8(a) firms are not guaranteed success in obtaining contracts. According to 8(a) program regulations, firms may also receive SBA's business development assistance, such as contract support, financial assistance, training in developing business strategies to enhance a firm's ability to compete for contracts, training in transitional business planning, and assistance in forming joint ventures with other firms. The firms' 9-year program participation is divided into two stages—a developmental stage covering years 1 through 4, and a transitional stage covering years 5 through 9. During the transitional years, firms are required to meet certain non-8(a) business contract levels in an effort to ensure that firms do not develop an unreasonable reliance on the program.

SBA's Efforts Are Not Aligned With Firms' Needs and Expectations

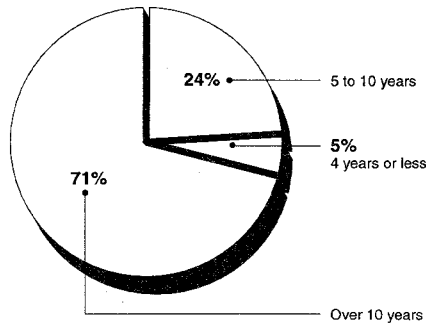
Although the purpose of the 8(a) program is to provide business development to assist eligible small disadvantaged firms compete in the American economy, SBA has never surveyed its customers—the 8(a) firms—in a meaningful way to determine what experience they have or what their needs are. We surveyed 1,200 firms participating in the 8(a) program and found that firms want SBA to provide them with more assistance that will help them obtain contracts. Firms did not place a high priority on learning to manage a business because a large majority of the firms had owners with over 10 years' experience in managing a business. Yet, in providing assistance, we found that SBA has emphasized business management skills, even though most firms joined the program to obtain 8(a) contracts and were more satisfied with the program if they received a contract. This misalignment of SBA's efforts and the needs of 8(a) firms has been further compounded by the fact that most 8(a) contract dollars go to a small number of firms.

Few Firms Join to Learn How to Manage a Business, but SBA Emphasizes Management Training

According to our survey data, most firms would like to see SBA place a greater emphasis on increasing 8(a) contract opportunities. For example, 90 percent of those surveyed want SBA to place a high priority on increasing efforts to link 8(a) firms with specific federal program managers. Over 80 percent would like SBA to make sure that contacts at federal agencies are familiar with the program. Furthermore, 83 percent of the survey respondents want SBA to increase the number of ways the agency informs 8(a) firms about contract opportunities.

On the other hand, our survey results showed that only 22 percent of the firms considered learning more about managing a business to be a major reason for joining the 8(a) program. One reason why firms did not place a higher priority on learning to manage a business is that a large majority of 8(a) firms already had substantial business experience. As shown in figure 1, 71 percent of the firms had owners with over 10 years' experience managing their current 8(a) firm and other companies. Furthermore, over 50 percent of the firms we surveyed were in business 5 years or more before joining the program. One respondent wrote in his survey that his company had been in business 12 years before being certified as an 8(a) firm. Another respondent wrote that he had over 20 years' business experience and just needed help finding contracting opportunities, which he had not yet received from his local SBA office.

Figure 1: Owners' Experience Managing Current 8(a) Firms and Other Companies



Source: GAO's survey of 8(a) firms.

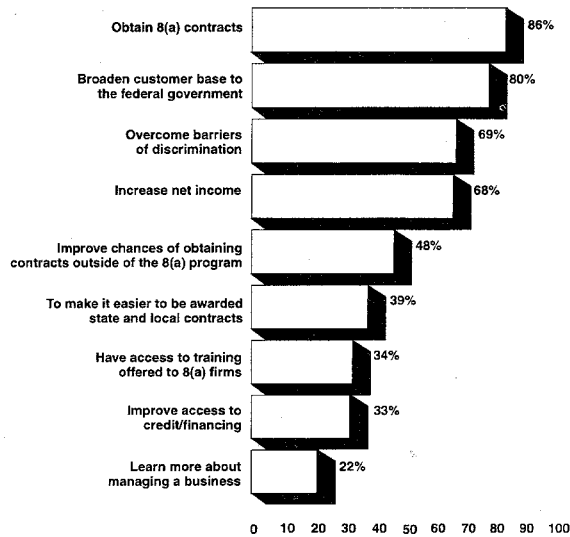
SBA, however, has emphasized business management skills instead of the contracting opportunities and related training that firms want. For example, since fiscal year 1996, SBA has devoted 40 to 50 percent of its \$2.6 million 8(a) training budget to executive education for 8(a) firms.³ A senior SBA program adviser estimated that about 10 percent of the 8(a) firms have had their executives participate in this training, which focuses on developing the skills of an 8(a) firm's president or chief executive officer. The remaining training resources are divided among contracts with various universities and other providers. The 8(a) Business Development Mentor-Protégé Program, which encourages private-sector relationships with mentors, is designed to help 8(a) firms compete more successfully for contracts through assistance, such as financial, technical, and management assistance provided by their mentors. Yet, this program also serves a limited number of firms. As of April 2000, SBA only had 40 mentor-protégé agreements in place.

Firms Join the Program Primarily to Obtain Contracts, and Their Satisfaction Is Tied to Receiving Contracts

Although SBA has emphasized training for the 8(a) firms, our survey results showed that a major reason that 86 percent of the 8(a) firms cited for joining the program was to obtain federal contracts, especially those set aside for the 8(a) program. As shown in figure 2, a significant number of the firms we surveyed also entered the program to broaden their customer base to include the federal government, overcome barriers to discrimination, and increase their net income.

³Executive education training is given to select 8(a) firm executives who are nominated for participation by SBA district offices and is provided through SBA's 7(j) Management and Technical Assistance Program.

Figure 2: Major Reasons Firms Joined the 8(a) Program



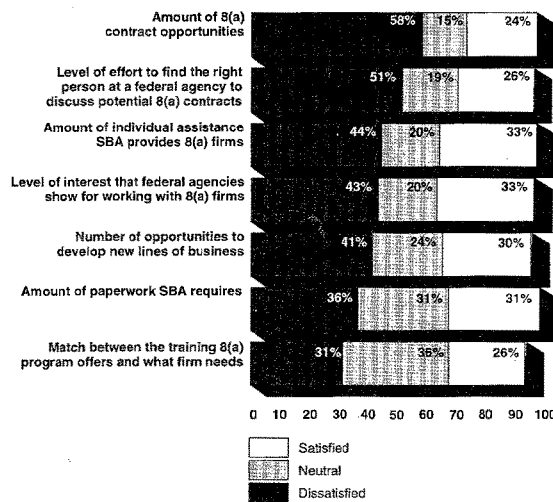
Source: GAO's survey of 8(a) firms.

We found that firms' overall satisfaction with the program was mixed, but firms that received 8(a) contracts were more satisfied than those that did not. For example, over 48 percent of the firms in the program for at least 2 years that had obtained at least one 8(a) contract were satisfied with the program. However, only about 9 percent of the firms in the program for at least 2 years that had not obtained an 8(a) contract were satisfied. For example, one respondent wrote in her survey that she is frustrated because her firm spent a considerable amount of money marketing to various federal agencies for over 2 years but had no results to show for it.

When asked about satisfaction with general aspects of the 8(a) program, firms expressed the most dissatisfaction with two items relating to contracting issues. As shown in figure 3, 58 percent of the 8(a) firms indicated that they were dissatisfied with the amount of contracting opportunities afforded by the program. Over half the firms surveyed were also dissatisfied with their efforts to find the right contact at a federal agency to discuss potential 8(a) contracts. Additionally, over 40 percent were dissatisfied with the amount of individual assistance that SBA provides and the level of interest that federal agencies show for working with 8(a) firms. One respondent commented in the survey that his firm has not received any assistance from its business opportunity specialist in over 5

years. Another respondent also wrote that he did not even know whom to contact at SBA and that the only information that he receives from SBA is paperwork for recertification and requests for financial information. Another respondent wrote that federal agencies are reluctant to use the 8(a) program.

Figure 3: Major Reasons for Firms' Satisfaction and Dissatisfaction With the 8(a) Program



Note: Those who responded "uncertain" were not included in this figure. As a result, totals do not tally to 100 percent.

Source: GAO survey of 8(a) firms.

A Small Number of Firms Continue to Receive Most 8(a) Contracts

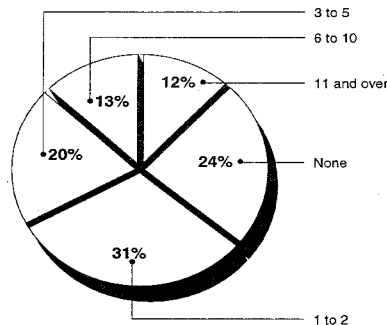
Firms' success at obtaining these contracts has been a long-standing concern of the Congress, GAO, and the SBA Inspector General. In amending the 8(a) program in 1988, the Congress sought to improve the fair and equitable distribution of federal contracting opportunities by increasing the number of competitive small businesses owned and controlled by socially and economically disadvantaged individuals. Nonetheless, as our prior reports¹ and those of the SBA Inspector General have noted, (1) a large percentage

¹See *Small Business: Problems in Restructuring SBA's Minority Business Development Program* (GAO/RCED-92-68, Jan. 31, 1992), *Small Business: Problems Continue With SBA's Minority Business*

of the total dollar value of program contracts was awarded to very few firms and (2) about half the firms in the program in a given year receive no 8(a) contracts. For example, our analysis of SBA's program data for fiscal year 1998 showed that 50 percent (\$3.2 billion) of the dollar value of the 8(a) contracts and modifications went to only 209 of the over 6,000 firms in the program, while over 3,000 firms did not get any program contracts. The Inspector General also listed the concentration of 8(a) contracts among a few firms as 1 of the 10 most serious management challenges facing SBA in both fiscal years 1999 and 2000. The concentration of program contract awards has also been reported as a material weakness in SBA's Federal Managers Financial Integrity Act Report every fiscal year since 1994.

According to our survey results, many firms have yet to receive an 8(a) contract. For example, as shown in figure 4, 24 percent of our survey respondents who have been in the program for at least 2 years have not obtained an 8(a) contract, and over half have gotten two or fewer contracts. Of those survey respondents who primarily joined the program to obtain contracts and who have been in the program for at least 2 years, 35 percent indicated that they have not been successful in obtaining a contract. One survey respondent wrote that her firm is going into its 4th year in the program without obtaining any 8(a) contracts. The respondent wrote that her firm was under the impression that SBA staff would assist it in contacting federal agencies and obtaining these contracts. Instead, she said the firm has had to use its time and resources to fill out the paperwork required by SBA but has nothing to show for its efforts.

Figure 4: Number of 8(a) Contracts Awarded to Firms That Have Been in the 8(a) Program at Least 2 Years

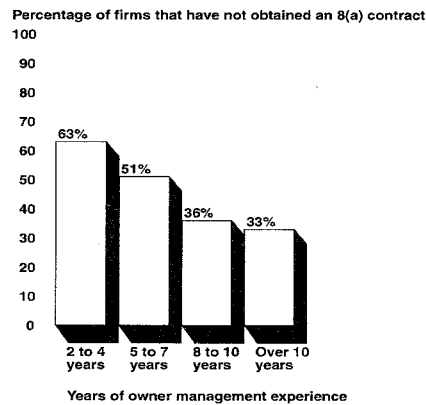


Development Program (GAO/RCED-93-145, Sept. 17, 1993), *Small Business: SBA Cannot Assess the Success of Its Minority Business Development Program* (GAO/T-RCED-94-278, July 27, 1994), *Small Business: Status of SBA's 8(a) Minority Business Development Program* (GAO/T-RCED-95-149, Apr. 4, 1995), and *Small Business: Status of SBA's 8(a) Minority Business Development Program* (GAO/T-RCED-96-259, Sept. 18, 1996).

Source: GAO survey of 8(a) firms.

In our analysis of the survey data, we examined the relationship between firms that have not yet obtained 8(a) contracts and the number of years of the owners' overall owner management experience. The survey data indicate that firms that have owners with less management experience are not as likely to obtain 8(a) contracts as firms with more experienced owners. As illustrated in figure 5, nearly 63 percent of the firms surveyed that have owners with 2 to 4 years' management experience have not obtained a contract.

Figure 5: Percentage of Firms That Have Not Obtained an 8(a) Contract on the Basis of the Owners' Management Experience



Source: GAO survey of 8(a) firms.

SBA agrees that the concentration of 8(a) contracts among a few firms is a problem and has made changes to the 8(a) program in an attempt to reduce the concentration. However, SBA officials said that it is reasonable that not all firms in the program will receive 8(a) contracts. According to SBA, 8(a) firms are no different from other small businesses—some will be more successful than others. Among the factors that SBA said defined a firm's success in obtaining 8(a) contracts are the firm's proximity to federal agencies; the firm's capabilities, access to credit and capital, and effective marketing; and the share of each federal agency's prime contracting dollars that are devoted to the program. SBA officials also stressed that according to program regulations, admission into the program does not guarantee that a participant will receive 8(a) contracts. In

addition, SBA relies on other federal agencies to make the contract awards, and federal procuring officials are confronted with the competing objectives of accomplishing their agency's mission at a reasonable cost and achieving the 8(a) program's business development goals.

SBA Can Not Tell How Well the 8(a) Program Is Working

SBA remains unable to track the training and assistance it provides for 8(a) firms, but did pilot a Business Assessment Tool in 1999 that would evaluate firms' business development needs. At the time of our review, SBA officials were still evaluating the results of the pilot. In addition, changes in the contracting process have undermined the accuracy of SBA's contracting data. This lack of systematic data impairs SBA's ability to measure the program's overall performance and to determine what assistance firms need.

SBA Does Not Have a System for Tracking Business Development

SBA lacks a systematic way of tracking the business development services that firms need and receive. In January 1992, we reported that the full extent of the management and technical assistance provided for 8(a) firms was unknown because SBA did not have a computer network that enabled the agency to collect this information.⁵ In September 1996, SBA testified it had an automated information system that enabled the agency to monitor, among other things, what kind of assistance was provided for firms and what progress was made with business development. However, SBA's Deputy Assistant Administrator for Technology said that this capacity was never used because funding for training has been reduced. The 8(a) program manager told us that, if information on training and assistance is needed, headquarters would send an information request to the district offices, which would provide the information. Yet, SBA's district office officials in Atlanta, Dallas/Ft. Worth, New York City, and San Francisco told us that they do not have a system to track training information.

In an effort to better identify what type of assistance and training an 8(a) firm requires and what the firms receive, SBA piloted an automated Business Assessment Tool in July 1999 at 14 of SBA's district offices. The assessment tool was designed to match information from a series of 58 questions that assess the firm's developmental assistance needs with the business training and counseling resources provided by SBA and other service providers. The tool also provided a mechanism for tracking the training and assistance recommended. SBA officials said that the tool, which is not integrated into SBA's current information system, is being reassessed because the pilot showed that it needed to be more user friendly. For example, if a business opportunity specialist were not able to complete all the data entries in one session, the tool would not save the entries already completed.

⁵See *Small Business: Problems in Restructuring SBA's Minority Business Development Program* (GAO/RCED-92-68, Jan. 31, 1992).

SBA's Information on 8(a) Firms'
Contracting Activity Is Incomplete

SBA does not know which 8(a) firms are getting which contracts. When the contracting authority for 8(a) was delegated to federal contracting agencies in 1997 and 1998, SBA no longer required federal agencies to provide SBA with copies of 8(a) contracts for entry into the 8(a) database. Instead, the agency planned to get contracting data from the Federal Procurement Data System (FPDS)—a central source of federal contracts of over \$25,000 that is maintained by the General Services Administration. However, SBA did not begin using FPDS until mid-fiscal year 2000 and found that considerable staff effort was needed to match contracting records from FPDS with SBA's demographic records on 8(a) firms. Matching records is necessary for SBA to tell which firms got which contracts. SBA said that it intends for future 8(a) systems development to simplify and automate the matching process.

Even though the information system lacks data on a significant number of contracts, staff in every district we visited said that they are still required to spend time entering into the system the contracting data they do have even if it is of little or no use to them. For example, one official estimated that the 8(a) contracting amounts for fiscal year 1999 are underrepresented in SBA's system by about \$1.8 billion when compared with FPDS.

SBA officials told us that they plan to update the 8(a) information system as part of an agencywide information systems modernization initiative and have begun the development of a strategic information technology plan for the office that oversees the 8(a) program. The testimony of Joel Willemsen later in the hearing will further discuss SBA's information technology management processes.⁶

SBA's Lack of Systematic Data Impairs
Its Ability to Measure Program Performance

SBA managers acknowledged that the lack of a system to track and assess the results of business development activities creates a weakness for the program because it is difficult to assess the program's effectiveness. The officials said that their system's inability to record training and assistance could lead to an underaccounting of the benefits that firms receive from the program. For example, a district manager noted a case in which an 8(a) firm received considerable assistance in developing its marketing and other capabilities. This firm, through the auspices of the district office, later negotiated and won a contract with a commercial firm. However, this outcome could not be credited within the system because (1) staff have no way of recording the training and assistance provided to firms, other than in informal notations, and (2) the contract awarded to the firm was not an 8(a) contract, so the award information could not be noted in the system.

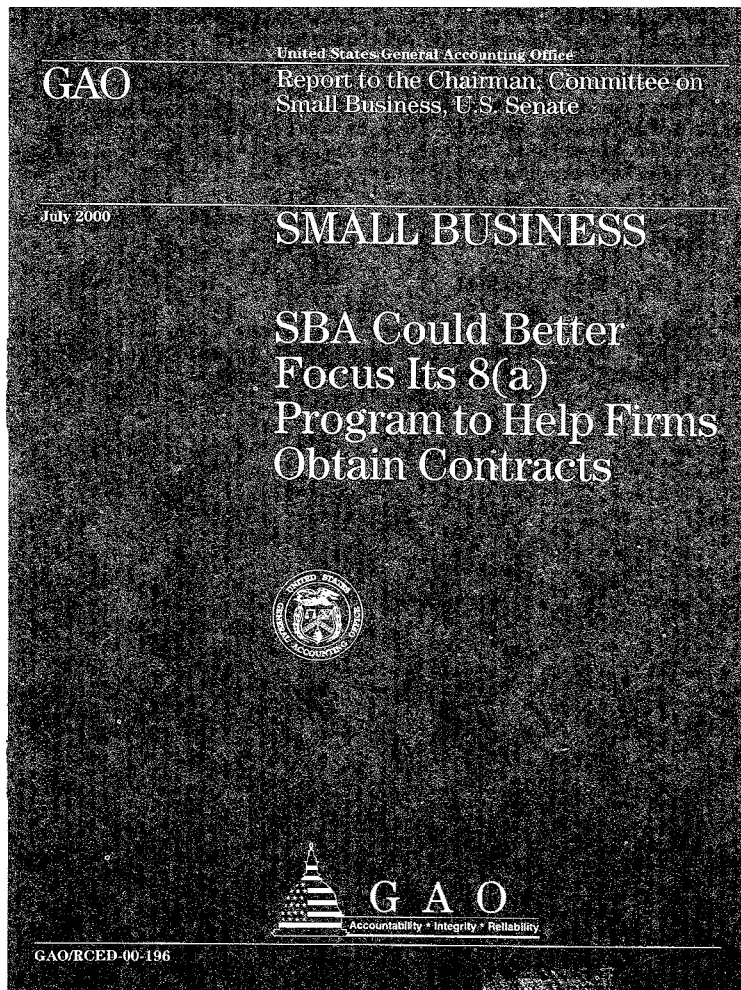
⁶See *Information Technology Management: Small Business Administration Needs Policies and Procedures to Control Key IT Processes* (GAO/T-AIMD-00-260, July 20, 2000).

In addition, the lack of accurate contracting data has made tracking program performance difficult. Because of the lack of data, district offices cannot readily produce accurate reports on the number of contracts awarded to 8(a) firms in their district. For example, staff in one district office said they had been questioned by their district office director about why the number of contracts awarded to firms in their district had decreased dramatically. The matter was not really that the number of contracts was decreasing, but that the information system lacked data on an estimated 50 percent of the contracts awarded.

Mr. Chairman, this completes our prepared statement. We would be happy to respond to any questions from you or members of the Committee.

Contact and Acknowledgement

For future contacts regarding this testimony, please contact Stanley J. Czerwinski at (202) 512-7631. Individuals making key contributions to this testimony included Susan Campbell, Andy Clinton, and David Lewis.



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Abbreviations

- IG Inspector General
 SBA Small Business Administration



United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-234055

July 20, 2000

The Honorable Christopher S. Bond
Chairman, Committee on Small Business
United States Senate

Dear Mr. Chairman:

The 8(a) program, administered by the Small Business Administration (SBA), is one of the federal government's primary vehicles for developing small businesses that are owned by socially and economically disadvantaged individuals. To be certified by SBA for participation in the program, applicants must show that their firms are owned by socially and economically disadvantaged individuals, meet SBA's small business size standards, and have a reasonable potential for success, as defined in SBA regulations. Firms in the program are eligible for contracts that federal agencies set aside for 8(a) firms and may receive SBA technical assistance and management training. In fiscal year 1999, about 6,000 small businesses participated in the program, and \$6.2 billion was awarded in 8(a) contracts.

Concerned about whether the program is helping 8(a) firms become more competitive, you asked us to examine (1) the extent to which firms are obtaining federal contracts, (2) how SBA tracks the training and assistance provided to firms, and (3) how firms view the program. In examining the firms' views, we focused on the reasons why firms join the program, what assistance firms want from SBA, and how satisfied they are with the program. To address these questions, we conducted a nationwide mail survey of 1,200 firms randomly selected from SBA's database of 5,432 active 8(a) firms. Our survey response rate was 71 percent (853 firms) and our results can be generalized to the entire population of active 8(a) firms in the program as of September 30, 1999. Appendix I provides a more detailed description of our objectives, scope, and methodology. Our survey and the responses to it are provided in appendix II.

Results in Brief

Access by firms to 8(a) contracts—long considered the program's biggest benefit—remains a problem. A long-standing concern cited in our previous reports and those of the SBA Inspector General is that a few firms receive most of the 8(a) contracts, effectively limiting the developmental opportunities available to other firms in the program. For example, in fiscal

year 1998, 209 firms received 50 percent of the 8(a) contract dollars. SBA acknowledges this problem and has made some changes in the program to address it, but SBA officials said that because of differences in firms' skills and experience and other factors, it is reasonable that not all 8(a) firms will receive contracts from the program. In addition, SBA relies on other federal agencies to make the contract awards, and federal procuring officials are confronted with the competing objectives of accomplishing their agencies' missions at a reasonable cost and achieving the 8(a) program's business development goals.

SBA remains unable to track the training and assistance it provides to 8(a) firms. We reported in 1992 that SBA did not know the full extent of management and technical assistance provided to 8(a) firms because it did not track the assistance provided. Almost a decade later, we found that SBA still does not have a method of systematically tracking the training and assistance firms receive. The lack of such a system impairs SBA's ability to measure the program's performance and to determine what assistance firms need. SBA piloted a Business Assessment Tool in 1999 that would evaluate firms' business development needs, but at the time of our review, SBA had not completed its review of the pilot.

According to our survey results, almost all firms joined the program to obtain 8(a) contracts, wanted SBA to provide contracting assistance, and were more satisfied with the program if they had received a contract. Eighty-six percent of the firms surveyed joined the program to obtain 8(a) contracts. However, only about one-fifth of the firms joined the program to learn more about how to manage a business. One reason for these firms' not placing a higher priority on learning to manage a business is that a large majority of the firms had owners with over 10 years' experience managing a business. In addition, the firms themselves were not new; over half the firms we surveyed had been in business 5 years or more before joining the program. Overall satisfaction with the program was mixed, but firms that received 8(a) contracts were more satisfied than those that did not. We are recommending that SBA take a number of actions aimed at better meeting the purpose of the program, the needs and expectations of the firms in the program, and improving SBA's ability to determine how well the program is working. We provided a draft of this report to SBA for its review and comment. SBA concurred with the report's recommendations and provided technical clarifications, which were incorporated as appropriate.

Background

The Small Business Act, as amended, authorizes the 8(a) program. The purpose of the program—which was named for a section of the Small Business Act—is to help eligible socially and economically disadvantaged small businesses to compete in the American economy through business development activities. Toward this end, the Congress made three major legislative attempts—in 1978, 1980, and 1988—to improve SBA's administration of the program and to emphasize its business development aspects. The Congress enacted the 1988 act and subsequent amendments partly because the program was not developing firms in the program into viable businesses. To remedy this and other problems, the 1988 act made a number of changes to improve the program's organization and participation standards, business development activities, and overall management.

To be eligible for the 8(a) program, a firm must be a small business that is at least 51-percent owned and controlled by one or more socially and economically disadvantaged individuals. A firm is considered small if it meets size standards established by SBA for the firm's particular industry. Under the program, certain ethnic groups, such as African and Hispanic Americans, are presumed to be socially disadvantaged. Other individuals can be admitted to the program if they can adequately document that they are socially disadvantaged. In addition, to qualify as economically disadvantaged, an individual must have a net worth of less than \$250,000, excluding his or her ownership interest in the firm and a primary personal residence. A firm must also generally have been in business at least 2 years and possess a reasonable prospect for success in the private sector as determined by SBA on the basis of elements such as the firm's operating revenue and access to capital and credit.

Firms that enter the program are eligible to receive contracts that federal agencies set aside for the program and to receive business development assistance from SBA. Competition for 8(a) contracts is limited to firms within the program. Firms can obtain other federal contracts, but do so in competition with firms outside the program. Firms' 9-year program participation is divided into two stages—a developmental stage covering years 1 through 4 and a transitional stage covering years 5 through 9. During the transitional years, firms are required to meet certain non-8(a) business contract levels in an effort to ensure firms do not develop an unreasonable reliance on the program. According to 8(a) program regulations, firms may also receive business development assistance, such as contract support, financial assistance, training in developing business strategies to enhance their ability to compete for contracts, training in

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transitional business planning, and assistance in forming joint ventures with other firms.

A business opportunity specialist in the SBA district office that serves the geographical area where a firm's principal place of business is located is normally assigned to service the firm while it is in the program. The business opportunity specialist is responsible for, among other things, assisting the firm with preparing a business plan, conducting annual reviews of the firm's progress in implementing its plan, providing technical assistance, analyzing year-end financial statements for certain compliance issues, and coordinating additional assistance and training for the firm through SBA's 7(j) Management and Technical Assistance Program.

A Few Firms Continue to Receive Most 8(a) Contracts

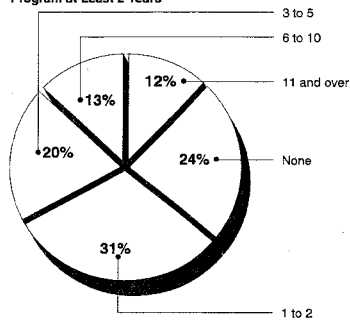
Because access to 8(a) contracts has long been considered the program's biggest benefit, firms' success in obtaining these contracts has been a long-standing concern. The Congress in amending the 8(a) program in 1988 sought to improve the fair and equitable distribution of federal contracting opportunities by increasing the number of competitive small businesses owned and controlled by socially and economically disadvantaged individuals. Nonetheless, as our prior reports and those of the SBA Inspector General (IG) have noted, (1) a large percentage of the total dollar value of program contracts was awarded to very few firms, and (2) about half the firms in the program in a given year receive none of these contracts. For example, our analysis of SBA's fiscal year 1998 program data showed that 50 percent (\$3.2 billion) of the dollar value of the 8(a) contracts and modifications went to only 209 of the more than 6,000 firms in the program, while over 3,000 firms did not get any program contracts. According to SBA, because the developmental status of each firm in the program varies greatly in any given year, the number of firms that seek 8(a) contracts will be less than the total number of firms in the program. The IG also listed the concentration of 8(a) contracts among a few firms as one of the 10 most serious management challenges facing SBA in both fiscal years 1999 and 2000. The concentration of program contract awards has also been reported as a material weakness in SBA's Federal Managers Financial Integrity Act Report every fiscal year since 1994.

According to our survey results, many firms have yet to actually receive an 8(a) contract. For example, as shown in figure 1, 24 percent of our survey respondents who have been in the program for at least 2 years have not obtained an 8(a) contract. Of those survey respondents who joined the program primarily to obtain contracts and who have been in the program

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for at least 2 years, 35 percent indicated that they have not been successful in obtaining a contract. One survey respondent wrote that their firm is going into its fourth year in the program without obtaining any 8(a) contracts. The respondent wrote that their firm was under the impression that SBA staff would assist them in contacting federal agencies and obtaining these contracts. Instead, the firm has had to use its time and resources to fill out the paperwork required by SBA but has nothing to show for its efforts. According to the program's regulations, admission into the program does not guarantee that firms will receive 8(a) contracts. Firms are also informed upon joining the program that participation does not guarantee their obtaining an 8(a) contract.

Figure 1: Number of 8(a) Contracts Awarded to Firms That Have Been in the 8(a) Program at Least 2 Years

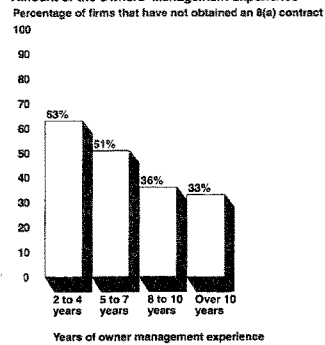


In our analysis of the survey data, we examined different factors to determine if there were any relationships between firms that have not yet obtained 8(a) contracts and (1) the number of years of the owners' overall owner management experience or (2) the number of years a firm was in business before joining the program. The survey data indicate firms that

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have owners with less management experience are not as likely to obtain 8(a) contracts compared with firms with more experienced owners. As illustrated in figure 2, nearly 63 percent of the firms surveyed have owners with 2 to 4 years' management experience and have not obtained a contract.

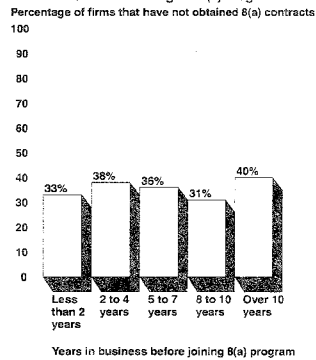
Figure 2: Percentage of Firms That Have Not Obtained an 8(a) Contract Based on the Amount of the Owners' Management Experience



Our survey data indicate that no significant relationship exists between the amount of time a firm has been in business before joining the program and its success in obtaining an 8(a) contract. For example, as illustrated in figure 3, there is no statistical difference between firms that have been in business less than 2 years and those that have been in business over 10 years with regard to their success in obtaining an 8(a) contract.

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Figure 3: Percentage of Firms That Have Obtained No 8(a) Contracts by Their Years in Business Before Joining the 8(a) Program



SBA agrees that the concentration of program contracts among a few firms is a problem and has made changes to the 8(a) program in an attempt to reduce the concentration. For example, SBA revised the program's regulations in June 1995 and eliminated a loophole that allowed firms to obtain sole source contracts above a limit set for the program. In 1998, SBA attempted to make the 8(a) contracting process more attractive for federal agencies by negotiating memorandums of understanding that allowed federal agencies to contract directly with 8(a) firms. Federal agency officials we interviewed generally viewed this change as having a positive impact on the process. Officials at one agency commented that their memorandum of understanding has reduced the time it takes them to issue an 8(a) contract by at least 30 days. Also, in June 1998, SBA again revised the program's regulations to, among other things, limit the total dollar amount of sole source contracts firms can receive and allow 8(a) firms and other small businesses to form joint ventures to enhance their ability to obtain larger federal contracts. SBA stated in December 1999 that these efforts, along with others, were reducing the contract concentration.

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problem. The agency reported a 40-percent reduction in the dollar amount of 8(a) contracts awarded to the top 10 firms between fiscal years 1997 and 1998. However, our analysis of SBA's fiscal year 1999 program data showed that this was a short-term reduction because the dollar amount of 8(a) contracts awarded to the top 10 firms increased by 45 percent between fiscal years 1998 and 1999.

At the same time, SBA officials said that because of the differences in skills and experience among the firms and conflicting federal procurement objectives, it is reasonable that not all firms in the program will receive 8(a) contracts. According to SBA, 8(a) firms are no different from other small businesses—some will be more successful than others. Among the factors that define a firm's success in obtaining 8(a) contracts are the firm's proximity to federal agencies; the firm's capabilities, access to credit and capital, and effective marketing; and the share of each federal agency's prime contracting dollars devoted to the program. The program's regulations state that admission to the program does not guarantee that a participant will receive 8(a) contracts. In addition, SBA relies on other federal agencies to make the contract awards, and federal procuring officials are confronted with the competing objectives of accomplishing their agencies' missions at a reasonable cost and achieving the 8(a) program's business development goals.

SBA's Lack of a System to Track Assistance Provided to 8(a) Firms Impairs Its Ability to Measure Program Performance

SBA remains unable to track the training and assistance it provides to 8(a) firms. Almost a decade after we first reported that SBA did not track the assistance it provides to firms, we found that SBA still does not have a method of systematically tracking the training and assistance firms receive. The lack of such a system impairs SBA's ability to measure the program's performance and to determine what assistance firms need. SBA piloted a Business Assessment Tool in 1999 that would evaluate firms' business development needs, but at the time of our review, SBA officials had not completed their assessment of the pilot. SBA has attempted to enhance the training component of the program over the last several years, but its efforts are limited in the number of firms they can serve because of funding constraints.

SBA Lacks a System to Measure Business Development Impact

Although SBA wants to emphasize business development for 8(a) firms, it does not currently have a method for systematically tracking the business development training and assistance 8(a) firms receive. In January 1992, we reported that the full extent of the management and technical assistance

provided to 8(a) firms was unknown because SBA did not have a computer network that enabled the agency to collect this information.¹ In September 1996, SBA testified it had implemented an automated information system that enabled the agency to monitor, among other things, what kind of assistance was provided to firms and what progress was made with business development. Yet SBA is not currently tracking the training and assistance provided to 8(a) firms. SBA's Deputy Assistant Administrator for Technology said that SBA's current information system had the capacity to track management training from the 7(j) Management and Technical Assistance Program when the system was initially implemented, but this capacity was never used because 7(j) program funding was reduced. If information on training and assistance is needed, the 8(a) program manager said headquarters would send an information request to the district offices. However, officials in SBA's district offices in Atlanta, Dallas-Fort Worth, New York City, and San Francisco told us that they do not have systems to track the training or assistance that they or others provide to 8(a) firms. Officials in SBA's Washington, D.C., district office informed us that since SBA did not have a centralized system to track training or assistance provided to 8(a) firms, the district office maintained a spreadsheet with this information. Our report on SBA's 8(a) information system discusses this issue as well as other concerns with that system.²

In addition, SBA does not have a systematic way of assessing the business development needs of 8(a) firms or the effect of the assistance it provides to address these needs. SBA currently relies on its business opportunity specialists to make such an assessment through their periodic contacts with the firms and their reviews of the firms' business plans and the annual 8(a) program reports firms provide. It is the business opportunity specialists' responsibility to provide advice and guidance on management and marketing, technical, financial, and contracting assistance and to refer firms to other sources, both within and outside SBA, for additional assistance. However, many business opportunity specialists are also responsible for a myriad of other tasks, such as making sure that firms comply with the program's regulations before they receive 8(a) contracts, reviewing annual financial reports from firms, and increasingly, for program marketing activities as well. For example, in the Atlanta, Dallas-

¹*Small Business: Problems in Restructuring SBA's Minority Business Development Program* (GAO/RCED-92-68, Jan. 31, 1992).

²*Small Business: SBA's 8(a) Information System Is Flawed and Does Not Support the Program's Mission* (GAO/RCED-00-197, July 20, 2000).

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Fort Worth, and New York City district offices, business opportunity specialists are responsible for all tasks associated with the firms in their portfolios. In these offices, the number of 8(a) firms each business opportunity specialist was responsible for at the time of our visits ranged from a low of 25 to a high of 43. In the San Francisco and Washington, D.C., district offices, the business opportunity specialists have a larger number of firms in their portfolios, but they divide up the servicing responsibilities. For the most part, the business opportunity specialists that we interviewed said that they believe the time they have to assess 8(a) firms' developmental needs and to provide needed assistance is limited. SBA officials in each of the district offices we visited also told us that because of travel constraints and other factors, business opportunity specialists are unable to make annual site visits to all the 8(a) firms in their portfolios, as recommended in SBA's operating procedures for the program.

In an effort to better identify what type of assistance and training an 8(a) firm requires, SBA piloted an automated Business Assessment Tool, but at the time of our review, the SBA Associate Deputy Administrator responsible for the 8(a) program said he was uncertain whether the tool would be implemented because of budget constraints. The assessment tool was designed to match information from a series of 58 questions that assess a firm's developmental assistance needs with the business training and counseling resources provided by SBA and other service providers. The tool also provided a mechanism for tracking the training and assistance recommended. In July 1999, SBA piloted the Business Assessment Tool at 14 SBA district offices where it was used to assess 53 firms. SBA officials said that the tool, which is not integrated into SBA's current information system, is being reassessed because the pilot showed that it could be improved by being made more user friendly. For example, if a business opportunity specialist was not able to complete all the data entries in one session, the tool would not save the entries already completed.

SBA's Measure of Program Success in Its Performance Plan Needs Improvement

SBA changed how it measures the success of the 8(a) program by realigning the program's performance goals in the agency's fiscal year 2001 annual performance plan with the program's business development emphasis. As required by the Government Performance and Results Act, agencies must prepare annual performance plans that inform the Congress of, among other things, the performance goals for major programs and the measures used to gauge program performance. Previously, the 8(a) program's success—as measured in SBA's fiscal year 2000 plan—was based

on the number of firms still independently owned and operated 3 years after leaving the program. SBA now defines the program's success as the number of 8(a) firms that complete the 9-year program term (or graduate early from the program) and receive business development assistance. Though the fiscal year 2001 plan did not provide specific details on what business development assistance involved, the plan stated that it included technical, management, and federal contract assistance.

However, as reported in our review of SBA's fiscal year 2001 performance plan, the new measure SBA adopted to assess the success of the 8(a) program is an output measure—completing the program and receiving business development assistance—and is a weaker performance measure than the outcome measure SBA adopted in its fiscal year 2000 plan—continued business operation 3 years after leaving the program.³ SBA's supporting information on the program's success rates in its 2001 plan for fiscal years 1997 through 1999 shows that the agency counted all firms that completed the program as successful because district office procedures dictate that every 8(a) firm receive at least one training session. Yet as we previously discussed, SBA has no systematic way to track the extent to which this and other assistance was provided.

A second performance goal in SBA's fiscal year 2001 performance plan—to increase the ability of small and disadvantaged businesses to successfully supply the government with goods and services by providing them with increased contracts and business development assistance—also affects the 8(a) program. The 2001 plan shows that SBA will measure this goal based on the percentage of firms that receive federal contracts, technical assistance, and mentoring. However, like the 8(a) program's new goal to measure program success, this performance goal also focuses on outputs rather than on outcomes. For example, SBA's target output measure for technical assistance is that in fiscal year 2001, 25 percent of small and disadvantaged businesses, including 8(a) firms, should receive business development and financial assistance through a number of SBA programs.

³Observations on the Small Business Administration's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan (GAO/RCED-00-207R, June 30, 2000).

SBA Increased Its Business Development Focus, but Efforts Are Limited

As part of its emphasis on business development, SBA devoted a significant amount of the funding from the 7(j) program to executive education for 8(a) firms. Since fiscal year 1996, SBA has earmarked from 40 to 50 percent of its 7(j) funding for this training. The executive education training, given to select 8(a) firm executives who are nominated for participation by SBA district offices, is conducted at various colleges and universities across the country. A senior SBA program adviser estimated that about 10 percent of the 8(a) firms have had executives participate in this training. The training is divided into two parts—a basic course for executives from firms in the developmental or transitional stages of the program and an advanced course for executives who have attended the basic course. Both courses focus on developing needed business skills for an 8(a) firm's president or chief executive officer.

Owners of two 8(a) firms we interviewed when developing our survey had taken the executive training and were very positive about the impact it had on their businesses. For example, one of the owners said that as a result of the training, she was able to expand her personnel firm so that it now provides business services. The other owner said that he considered himself very proficient in the engineering field but lacked sophisticated management skills. He credited the training with helping him focus his business plan and further develop his management skills. However, both owners stressed that SBA selects the more successful firms for executive development training.

Funding for the 7(j) program has decreased dramatically starting in fiscal year 1996. The program's funding for fiscal years 1990 through 1995 averaged about \$8.4 million per year, exceeding SBA's average budgetary request of \$7.2 million per year. In contrast, for fiscal years 1996 through 1999, funding for 7(j) averaged about \$2.6 million per year, well below SBA's average budgetary request of \$7.1 million. As a result of the decreased 7(j) funding levels, the 8(a) program manager said that SBA has relied on its other programs, such as the Small Business Development Centers and the Women-Owned Business Centers, to provide business development assistance to 8(a) firms. These programs have always been available to firms, but according to the program manager, they generally do not provide firms with specific contracting assistance.

During fiscal year 1999, SBA initiated the 8(a) Business Development Mentor-Protégé Program. The program encourages private sector relationships with mentors who can provide technical assistance, financial assistance (equity investments or loans), subcontract support, and

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assistance in performing prime contracts through joint venture arrangements with 8(a) firms. As of April 2000, SBA had established 40 mentor-protégé agreements and planned to have an additional 60 agreements in place by the end of fiscal year 2000. Nonetheless, if this participation level continues, the Mentor-Protégé program will only be able to reach a small fraction of the over 6,000 8(a) firms.

Most Firms Join the Program Primarily to Obtain 8(a) Contracts, and Their Satisfaction Depends on Contracting Opportunities

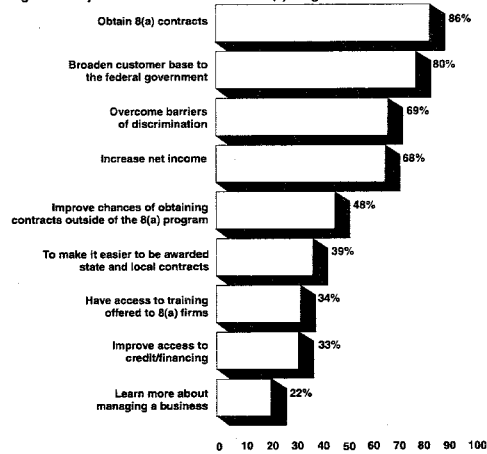
The most important reason that 86 percent of the firms cited for joining the 8(a) program was to obtain federal contracts set aside for the program. However, only about one-fifth of the firms in the program felt that they needed assistance from SBA in learning how to manage a business and would rather have had SBA assistance in finding contract opportunities. Overall satisfaction with the program was mixed, but firms that received 8(a) contracts were more satisfied than those that did not.

Firms Enter the Program Primarily to Receive 8(a) Contracts

According to our survey results, a major reason 86 percent of the firms cited for joining the 8(a) program was to obtain federal contracts that are set aside for the program. As shown in figure 4, a significant number of the firms we surveyed also entered the program to broaden their customer base to include the federal government and to increase their net income. For example, one respondent wrote that their firm is an established company that joined the 8(a) program just to expand its opportunities with the federal government. Another survey respondent wrote that the program should do more to help good minority companies obtain federal contracts.

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Figure 4: Major Reasons Firms Joined the 8(a) Program



Another major reason firms joined the 8(a) program was to overcome barriers of discrimination. While 69 percent of the respondents gave this reason, the percentage varied somewhat depending on the group with which a firm's owner identified. As table 1 indicates, 81 percent of the firms owned by minority women considered overcoming discrimination to be a major reason for joining the program, while 58 percent of the firms owned by Hispanic Americans saw it as a major reason. One survey respondent wrote that discrimination still exists and that, without the 8(a) program, it would have been almost impossible for their company to compete against large corporations for federal contracts. Another survey respondent wrote that the program is the only one available for minority firms to grow their businesses.

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Table 1: Percentage of Minority and Disadvantaged Groups That Considered Overcoming Discrimination as a Major Reason for Joining the 8(a) Program

Minority/disadvantaged group	Percentage
Minority women	81
Nonminority women	78
African American	78
Native American	64
Asian American	63
Hispanic American	58

Firms' Satisfaction With the 8(a) Program Depends on Contract Receipt

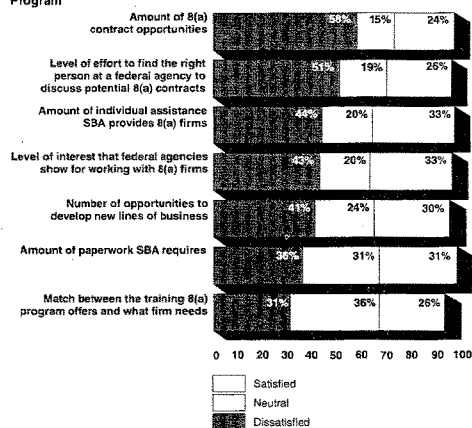
Overall satisfaction with the program was mixed, but firms that received 8(a) contracts were more satisfied than those that did not. For example, over 48 percent of the firms in the program for at least 2 years that had obtained at least one 8(a) contract were satisfied with the program. However, only about 9 percent of the firms in the program for at least 2 years that had not obtained an 8(a) contract were satisfied. One respondent wrote in their survey that they were frustrated because their firm had spent a considerable amount of money marketing to various federal agencies for over 2 years with no results.

When asked about satisfaction with general aspects of the 8(a) program, firms expressed the most dissatisfaction with two items relating to contracting issues. As shown in figure 5, 58 percent of 8(a) firms indicated that they were dissatisfied with the amount of contracting opportunities from the program. Over half the firms surveyed were also dissatisfied with their efforts to find the right contact at a federal agency to discuss potential 8(a) contracts. Additionally, over 40 percent were dissatisfied with the amount of individual assistance SBA provided and the level of interest federal agencies showed for working with 8(a) firms. One respondent commented in their survey that their firm had not received any assistance from its business opportunity specialist in over 5 years. One respondent also wrote that they did not even know who to contact at SBA and that the only information they received from SBA was paperwork for recertification and requests for financial information. Another respondent wrote that federal agencies were reluctant to use the 8(a) program. The respondent also wrote that SBA had failed to understand the concerns of federal agencies and that this kept the agencies from using the program.

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Other firms were more satisfied with the amount of contracting opportunities provided by the 8(a) program. For example, one survey respondent noted that that the program had helped their business to gain not only government contracts but also commercial ones. Another firm wrote that the program had provided an opportunity to participate in federal government contracts that were not available to the firm prior to joining.

Figure 5: Major Reasons for Firms' Satisfaction and Dissatisfaction With the 8(a) Program



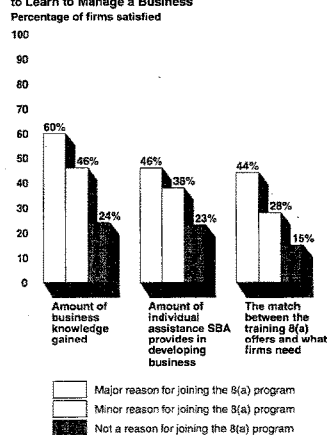
Note: Those who responded "uncertain" were not included in this figure. As a result, totals do not tally to 100 percent.

According to our survey, firms that joined the 8(a) program to learn to manage a business were generally more satisfied with the program than those that did not join for this purpose. Half of the firms we surveyed that

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joined the program to learn more about managing a business were satisfied, while only 30 percent of those that did not join for this purpose were satisfied. Additionally, as illustrated in figure 6, 60 percent of those that joined to learn to manage a business were satisfied with the business knowledge gained from the program. In contrast, only 24 percent who said that they did not join to learn to manage a business were satisfied with the business knowledge gained.

Figure 6: Satisfaction of 8(a) Firms Based on Whether They Joined the 8(a) Program to Learn to Manage a Business



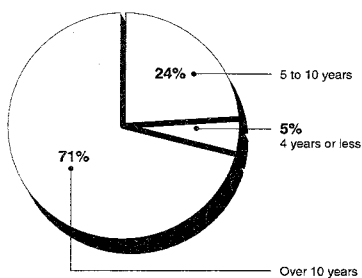
Firms that joined the program to learn to manage a business also joined to obtain 8(a) contracts. For example, 83 percent of the firms that joined to learn to manage a business reported that obtaining 8(a) contracts was a major reason for joining. However, most of the firms that joined the program to learn to manage a business were dissatisfied with the

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contracting aspect of the program—only 26 percent of these respondents were satisfied with the amount of 8(a) contract opportunities.

While firms that joined the 8(a) program to learn to manage a business were generally more satisfied with the program, only about one-fifth of those surveyed indicated that this was a major reason for joining. One reason for these firms' not placing a higher priority on learning to manage a business is that a large majority of the firms already had business experience. As shown in figure 7, 70 percent of firms had owners with over 10 years' experience managing their current 8(a) firm and other companies. Furthermore, over 50 percent of the firms we surveyed were in business 5 years or more before joining the program. One respondent wrote in their survey that their company had been in business 12 years before being certified as an 8(a) firm. Another respondent wrote that they had over 20 years business experience and just needed help finding contracting opportunities, help they had not received from their local SBA office.

Figure 7: Owners' Experience Managing Current 8(a) Firms and Other Companies



According to our survey data, most firms would like to see SBA implement changes that would place a greater emphasis on increasing 8(a) contract opportunities. For example, 90 percent of those surveyed wanted SBA to

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place a high priority on increasing efforts to link 8(a) firms with specific federal program managers. Over 80 percent wanted SBA to make sure that contacts at federal agencies are familiar with the program. Furthermore, 83 percent of the survey respondents wanted SBA to increase the number of ways the agency informs 8(a) firms about contract opportunities. Among the survey comments we received, one respondent stated that SBA should change the nature of the 8(a) program from a business development program to a contracting program. The respondent wrote that by changing the nature of the program, SBA would have more time to monitor compliance and promote the program to other federal agencies. Another survey respondent wrote that SBA should be more involved with firms as they seek out contracts and suggested that SBA hold quarterly meetings with firms at their place of business to discuss their progress. A third survey respondent wrote that SBA should place its highest priority on seeing that firms obtain their first 8(a) contract. Additionally, SBA's assessment of the data collected during SBA's pilot of the Business Assessment Tool also emphasized an increased contracting focus and recommended that contract assistance or counseling be provided to over 80 percent of the 53 firms assessed.

Conclusions

The purpose of the 8(a) program is to assist eligible small disadvantaged firms compete in the American economy through business development. SBA's program regulations state that, among other things, business development includes training to aid in developing strategies to compete successfully for both 8(a) and non-8(a) contracts. Our survey showed that 8(a) firms join the program primarily to obtain contracts and that their satisfaction with the program is tied to their receipt of contracts. Therefore, SBA should consider making contracting assistance its first priority for the program. To do this, SBA would need to increase its outreach efforts to federal agencies and develop strategies to increase the percentage of 8(a) firms that obtain contracts. In addition, SBA's district offices would need to focus resources on helping inform firms about contract opportunities, assisting firms with contracts at federal agencies, and being more involved with firms as they seek and negotiate contracts. By focusing its efforts on providing contracting assistance and outreach to federal agencies, SBA could better achieve the purpose of the program, improve customer satisfaction, and make more progress toward eliminating its long-standing problem with contract concentration.

SBA has no way to tell how well the 8(a) program is working. SBA has never surveyed its customers in a meaningful way as we did to determine

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what their needs are and to find out how satisfied they are with the program. Additionally, almost a decade after we first reported that SBA did not know the full extent of business development assistance provided to 8(a) firms because it did not track this assistance, SBA still does not have a tracking system in place. The Business Assessment Tool that SBA developed and piloted is a step in the right direction in terms of tracking training needs and the assistance provided, but pilot tests showed that it needs to be improved before it can be implemented. The lack of systematic data limits SBA's ability to monitor the program's results and to assess its effectiveness under the Government Performance and Results Act in an accurate and meaningful way. SBA has revised the program's success measure to include a provision of business development assistance as a factor. Yet the measure is meaningless because SBA simply assumes that every firm that completes the 9-year program has received a training session. Thus, all a firm has to do to be successful under this measure is to stay in the program for 9 years and attend one training session.

Because SBA does not know what business development assistance its customers—the 8(a) firms—want or need from the program, its efforts are not aligned with the needs and expectations of the firms. Recognizing that the owners of over two-thirds of the firms in our survey had over 10 years of management experience and that training funds available through the 7(j) program are severely limited, SBA could limit business development assistance that is not contracting-related to only the 8(a) firms that are identified as requiring it. Length of management experience could be used as a simple indicator to determine which firms might need assistance and which do not. Alternatively, SBA could refocus 7(j) program funding toward contracting-related training and refer firms that need management training to other sources.

Recommendations

To better address the purpose of the 8(a) program, meet the needs and expectations of the firms in the program, and improve SBA's ability to determine how well the program is working, we recommend that the Administrator of the Small Business Administration take the following steps:

- Instruct the district offices to place their highest priority on helping inform firms about contracting opportunities, assisting firms with contacts at federal agencies, and becoming more involved with firms as they seek and negotiate contracts.

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- Periodically perform a nationwide sample survey of 8(a) firms to obtain measurable program data. At a minimum, the survey should assess whether SBA assistance is meeting the firms' expectations and needs.
- Provide a method for collecting data on each firm's training needs for tracking the assistance provided.
- Revise the 8(a) program's success measure in SBA's future annual performance plans to make the measure a more meaningful assessment of the program's impact.

Reassess the agency's use of 7(j) Management and Technical Assistance Program funding. The reassessment should consider whether to devote most of the 7(j) program's funding to training designed to develop the abilities of 8(a) firms to obtain contracts or to retain the current business development focus but restrict the training to firms with a demonstrated need.

Agency Comments and Our Evaluation

We provided a draft of our report to SBA for its review and comment. SBA concurred with the report's recommendations and provided technical clarifications, which were incorporated as appropriate. SBA's comments are in appendix III.

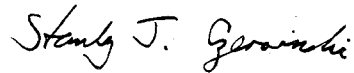
We conducted our review from September 1999 through July 2000 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days. At that time, copies of this report will be sent to the Honorable John Kerry, Ranking Minority Member of the Committee; other interested congressional committees; the Honorable Aida Alvarez, Administrator, Small Business Administration; and other interested parties. We will also make copies available to others on request.

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If you or your staff have any questions about this report, please contact me at (202) 512-7631. Key contributors to this report were Susan Campbell, Aray Carroll, Andy Clinton, Fran Featherston, Curtis Groves, Barbara Johnson, and Kirk Menard.

Sincerely yours,



Stanley J. Czerwinski
Associate Director, Housing,
Community Development, and
Telecommunications Issues

Objectives, Scope, and Methodology

Our objectives were to determine (1) the extent to which firms in the Small Business Administration's (SBA) 8(a) program are obtaining federal contracts, (2) how SBA tracks the training and assistance provided to firms, and (3) how firms view the program. In answering our first and second objectives, we visited and interviewed SBA officials involved with the 8(a) program at SBA headquarters in Washington, D.C., and at SBA district offices in Atlanta, Dallas-Fort Worth, New York City, San Francisco, and Washington, D.C. We selected these district offices based on the number of 8(a) firms they oversee and the geographic locations of the offices. Officials at SBA headquarters and the five district offices provided us with information on SBA's management of the 8(a) program, its current focus, and recent SBA initiatives intended to improve the program.

We also obtained and reviewed SBA's annual performance plans from fiscal years 1999 through 2001; annual SBA reports to the Congress on the 8(a) program from fiscal years 1995 through 1998; the program's regulations, which included the most recent changes from June 1998; various SBA procedural and information notices about the program; SBA's March 2000 proposed reorganization plan involving the program; and our prior reports on the program dating back to 1981. We also reviewed reports by the SBA Inspector General and information on the 8(a) program and discussed with Inspector General officials their past work involving the program.

To obtain a perspective on the focus of the program beyond SBA, we interviewed officials from selected Offices of Small Disadvantaged Business Utilization and various contracting officers for the Air Force, the Department of Education, the Environmental Protection Agency, the General Services Administration, the Office of Personnel Management, and the Department of Veterans Affairs. We selected these federal agencies because of the dollar amount of 8(a) contracts they awarded to 8(a) firms in fiscal year 1998, according to information from the Federal Procurement Data System.¹ The Air Force, General Services Administration, and Department of Veterans Affairs were 3 of the 10 federal agencies with the highest dollar amount of 8(a) contracts. The Department of Education, Environmental Protection Agency, and Office of Personnel Management were 3 of the 15 federal agencies with the lowest 8(a) contract amounts above \$1 million. We also obtained information on the program from our

¹Air Force 8(a) contract dollars are combined with overall 8(a) information for the Department of Defense.

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Objectives, Scope, and Methodology

interviews with officials at the Minority Business Enterprise Legal Defense and Education Fund and the National Federation of 8(a) Companies.

To answer our third objective on how firms view the program, we conducted a nationwide mail survey of active 8(a) firms. Our survey focused on the reasons why firms join the program, what assistance firms want from SBA, and how satisfied they are with the program. To determine which firms were eligible for our survey, we obtained a data file from SBA of all 8(a) firms. We then drew a random sample of 1,200 firms out of the 5,432 firms in the program listed as active as of September 30, 1989, and mailed our survey to these 1,200 firms.

Since we used a sample (called a probability sample) of 1,200 8(a) firms to develop our estimates, each estimate has a measurable precision, or sampling error, that may be expressed as a plus/minus figure. A sampling error indicates how closely we can reproduce from a sample the results that we could obtain if we were to take a complete count of the universe using the same measurement methods. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. This range is called a confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case, 95 percent. For example, a confidence interval at the 95-percent confidence level means that in 95 out of 100 instances, the sampling procedure we used would produce a confidence interval containing the universe value we are estimating.

Table 2 shows sampling errors for selected estimates that use the entire group of firms responding to our survey. Sampling errors are no more than 3 percent at the 95-percent confidence level for any estimate that has at least 750 respondents answering the question. Sampling errors for subgroups will be larger, depending upon the number of respondents in the subgroup. Table 3 shows sampling errors at the 95-percent confidence level for estimates in our report that use subgroups of firms.

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Table 2: Sampling Errors for Selected Percentages

Reported survey percentages (between 750 and 853 respondents)	Sampling error
1 to 5 percent	±1 percent
6 to 20 percent	±2 percent
21 to 79 percent	±3 percent
80 to 94 percent	±2 percent
95 to 99 percent	±1 percent

Table 3: Sampling Errors for Selected Estimates

	Number of cases	Estimated percent	Sampling error
Table 1: Percentage of minority and disadvantaged groups that considered overcoming discrimination as a major reason for joining the 8(a) program			
Minority woman	117	81	±6 percent
Nonminority woman	18	78	±19 percent
African American	253	78	±5 percent
Native American	56	64	±11 percent
Asian American	153	63	±7 percent
Hispanic American	187	58	±6 percent
Figure 1: Number of 8(a) contracts awarded to firms that have been in the 8(a) program at least 2 years			
None	553	24	±3 percent
1 to 2 contracts	553	31	±3 percent
3 to 5 contracts	553	20	±3 percent
6 to 10 contracts	553	13	±2 percent
11 and over	553	12	±2 percent

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(Continued From Previous Page)	Number of cases	Estimated percent	Sampling error
Figure 2: Percentage of firms that have not obtained an 8(a) contract based on the amount of the owners' management experience			
2 to 4 years	38	63	±14 percent
5 to 7 years	103	51	±9 percent
8 to 10 years	101	36	±6 percent
Over 10 years	580	33	±3 percent
Figure 3: Percentage of firms that have obtained no 8(a) contracts by their years in business before joining the 8(a) program			
Less than 2 years	87	33	±9 percent
2 to 4 years	318	38	±5 percent
5 to 7 years	177	36	±6 percent
8 to 10 years	101	31	±8 percent
Over 10 years	141	40	±7 percent
Figure 6: Satisfaction of 8(a) firms based on whether they joined the 8(a) program to learn to manage a business			
Reason for joining 8(a) program: Amount of business knowledge gained			
Major reason	178	60	±6 percent
Minor reason	252	46	±5 percent
Not a reason	382	24	±4 percent
Reason for joining 8(a) program: Amount of individual assistance SBA provides in developing business			
Major reason	178	46	±6 percent
Minor reason	252	38	±5 percent
Not a reason	382	23	±4 percent
Reason for joining 8(a) program: The match between the training 8(a) offers and what firms need			
Major reason	178	44	±6 percent
Minor reason	252	28	±5 percent
Not a reason	382	15	±3 percent
Selected estimates from text of report			
Percentage satisfied with 8(a) program for firms in program at least 2 years			
No awards	117	09	±5 percent
1 or more awards	410	48	±4 percent
Percentage of firms with one or more awards			
Firms who joined 8(a) program to obtain contracts	635	41	±3 percent
Percentage of firms satisfied with 8(a) program			

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Objectives, Scope, and Methodology

(Continued From Previous Page)	Number of cases	Estimated percent	Sampling error
Firms that reported learning to manage a business was a major reason for joining 8(a) program	161	51	±7 percent
Firms that reported learning to manage a business was not a reason for joining 8(a) program	349	30	±4 percent
Percentage of firms that joined program to obtain 8(a) contracts			
Firms that reported learning to manage a business was a major reason for joining 8(a) program	176	83	±5 percent
Percentage of firms satisfied with amount of contract opportunities			
Firms that reported learning to manage a business was a major reason for joining 8(a) program	188	26	±6 percent

We conducted 11 pretests of our survey with 8(a) firms in 3 of SBA's 10 regions. We selected firms for our pretest to provide testing from a variety of regions and from both firms that had and had not received 8(a) contract awards. We also conducted our pretesting with firms in a variety of industries. Each pretest consisted of a visit with a firm's representative by two members of our staff. The pretest attempted to simulate the actual survey experience by asking the firm's representative to fill out the questionnaire while our staff observed and unobtrusively took notes. Then the firm's representative was interviewed about the questionnaire items to ensure that (1) questions were readable and clear, (2) terms used were clear, (3) the survey did not place undue burden on firms that would result in a lack of cooperation, and (4) the survey appeared independent and unbiased in its point of view. Appropriate changes were incorporated in the final survey based on our pretesting.

In addition to our pretesting, we discussed a draft copy of our questionnaire with officials at SBA headquarters and the SBA Inspector General office in Washington, D.C. We incorporated comments from these discussions, as appropriate.

During the pretesting phase of our survey, it became evident that respondents considered the survey questions to be sensitive. Specifically, one respondent expressed the opinion that firms might be concerned that they would jeopardize their status with the 8(a) program if their answers were made public. To address these concerns, we developed procedures to guarantee the complete anonymity of all survey responses. To do this, we did not retain any identification of a respondent on the survey booklet or return envelope. This procedure prevented us from knowing the identity of the respondents for any of the surveys returned to us. The use of a separate

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return postcard allowed us, nevertheless, to track which respondents did and did not mail back survey responses so that we could follow up on nonresponses. In discussing these procedures with pretest respondents, they told us these measures would be helpful in encouraging survey responses.

To increase the response to our survey, we mailed a prenotification letter to respondents a week before we mailed the survey on January 13, 2000. We also used three mailings after the survey mailings, including (1) a reminder postcard a week after the survey, (2) a reminder letter to nonrespondents 16 days after the survey, and (3) a replacement survey for respondents not yet responding, mailed 4 weeks after the survey. During the return period, over 100 survey packages were returned to us because of incorrect addresses. We attempted a second mailing to these firms when we could locate replacement addresses. We received the last survey included in our analysis on April 7, 2000.

We received survey responses from 853 firms for a response rate of 71 percent. Additionally, we received responses from 22 firms that no longer are active in the 8(a) program. Only respondents active in the program at the time of our survey are included in our survey results in this report. Table 4 shows a summary of the survey returns.

Table 4: Summary of Returns to 8(a) Mail Surveys

Survey information	Number of 8(a) firms
Population size	5,432
Total sample size	1,200
Surveys returned ^a	875
Eligible	853
Not eligible	22
Surveys not returned	325
Undeliverable ^b	29
Nonresponse ^c	296
Response rate (number of eligible surveys returned/total sample size)	71%

^aDoes not include surveys returned that were not filled out.

^b106 of the 1,200 survey addresses obtained from SBA's 8(a) database were incorrect. We obtained correct addresses for 77 of the 106 firms through additional effort on our part.

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*Includes surveys returned blank, surveys received after our deadline, and surveys not received.

We conducted our review from September 1999 through July 2000 in accordance with generally accepted government auditing standards.

Appendix II

GAO's Survey of 8(a) Firms

United States General Accounting Office

GAO Survey of Firms' Experiences With SBA's 8(a) Program

Introduction

The U.S. General Accounting Office (GAO), a legislative agency that reviews federal programs for the U.S. Congress, is gathering information on the Small Business Administration's (SBA) 8(a) program. As part of this effort, we are surveying companies in the 8(a) program to obtain their views on the program. Your company was randomly selected to participate in this survey.

This survey is completely anonymous. There is no identification of your company on the questionnaire. You are asked to return the attached postcard separately after completing the questionnaire. The number on the postcard will let us know which companies participated in our survey. There is no information that can link the postcard with your questionnaire.

Your participation is vital to the accuracy of our review. Your frank and honest answers will help us provide the Congress with important information on what works well with the 8(a) program and what could be improved.

It should take about 15 minutes to complete the questionnaire. Your prompt participation will help us avoid costly follow-up mailings. If you have any questions about our review or this survey, please contact:

Kirk Menard
toll-free: 1-877-535-7352 (Dallas, TX)
E-mail: menardk.daim@gao.gov

or

Amy Gleason Carroll
(202) 512-3748 (Washington, D.C.)
E-mail: gleasona.rce9@gao.gov

If the envelope is missing, please return your survey to:

Mr. Kirk Menard
U.S. General Accounting Office
1999 Bryan Street, Suite 2200

Thank you very much for taking time to contribute to this study.

1. Is your company currently certified as an 8(a) company? (Check one.) N=853

1. 100% Yes → Please continue.

2. No → Please stop and return survey.

Experiences with the 8(a) program

2. Which of the following best describes your overall satisfaction with the 8(a) program? (Check one.) N=845

1. 14% Very satisfied

2. 24% Generally satisfied

3. 26% Both satisfied and dissatisfied

4. 11% Generally dissatisfied

5. 18% Very dissatisfied

6. 7% Uncertain

7. 1% Other (Please describe.)

3. As of today, what has been your company's success in being awarded 8(a) contracts from federal agencies? (Check one.) N=850

1. 11% Very successful

2. 16% Moderately successful

3. 26% Somewhat successful

4. 35% Not successful

5. 10% Too early to tell

6. 1% Uncertain

7. 2% Other (Please describe.)

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GAO's Survey of 8(a) Firms

4. Please rate each reason below for why you joined the 8(a) program. (Check one for each row.)

	Major reason (1)	Minor Reason (2)	Not a reason (3)	Uncertain (4)
A. To obtain federal contracts that are set aside for 8(a) companies N=841	86%	11%	2%	0%
B. To have access to training offered to 8(a) companies N=822	34%	35%	29%	2%
C. To learn more about managing a business N=821	22%	31%	47%	1%
D. To broaden our customer base to include the federal government N=834	80%	13%	8%	1%
E. To make it easier to be awarded state and local contracts N=819	39%	28%	32%	2%
F. To improve our company's chances of getting contracts outside the 8(a) program N=829	48%	26%	24%	1%
G. To improve our company's access to credit and financing N=824	33%	29%	35%	2%
H. To increase our net income N=819	68%	22%	9%	1%
I. To overcome the barriers of discrimination N=823	69%	19%	11%	1%
J. Other (Please describe.) N=71	70%	10%	11%	9%

5. Of the reasons listed in the table above, which one was the most important for you when you applied to join the 8(a) program? (Write the letter of the item in the box below.) N=753

A. 47%	E. 1%	I. 18%
B. 1%	F. 5%	J. 2%
C. 1%	G. 2%	
D. 17%	H. 6%	

Appendix II
GAO's Survey of 8(a) Firms

6. How satisfied or dissatisfied are you overall with the following aspects of the 8(a) program? (Check one for each row.)

	Very satisfied (1)	Generally satisfied (2)	Neutral (3)	Generally dissatisfied (4)	Very dissatisfied (5)	Uncertain (6)
a. The level of interest that federal agencies show for working with 8(a) companies N=841	8%	25%	20%	24%	20%	3%
b. The amount of business knowledge that we gained N=834	12%	27%	35%	12%	10%	4%
c. The amount of paperwork that SBA requires us to complete N=840	5%	26%	31%	18%	18%	2%
d. The number of opportunities to develop new lines of business N=837	8%	22%	24%	21%	20%	5%
e. The amount of individual assistance SBA provides to support us in developing our business N=839	10%	22%	20%	23%	21%	3%
f. The match between the training 8(a) offers and what our company needs N=837	5%	20%	36%	17%	14%	7%
g. The level of effort to find the right person at a federal agency to discuss potential 8(a) contracts N=839	6%	20%	19%	26%	26%	3%
h. The ease of understanding 8(a) rules and regulations N=841	8%	36%	29%	15%	8%	3%
i. The amount of 8(a) contract opportunities N=832	5%	18%	15%	25%	33%	4%

j. Please list any other items below.

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GAO's Survey of 8(a) Firms

7. How do you rate your experiences in working with your local SBA district office? (Check one for each row.)

	Very Satisfied (1)	Generally satisfied (2)	Neutral (3)	Generally dissatisfied (4)	Very dissatisfied (5)	Uncertain (6)
a. Helping our company with the 8(a) program's annual reporting process N=826	19%	31%	27%	10%	9%	5%
b. Keeping us informed about training opportunities N=829	23%	38%	21%	9%	6%	2%
c. Answering our questions quickly N=830	26%	36%	19%	11%	7%	2%
d. Showing us how to market our company to federal agencies N=830	10%	22%	27%	22%	18%	2%
e. Helping our company find the right contacts at federal agencies N=831	10%	16%	24%	24%	23%	2%
f. Looking over the 8(a) contract proposals we prepare N=818	9%	13%	42%	10%	12%	14%
g. Helping our company find 8(a) contract opportunities N=832	8%	15%	20%	22%	32%	4%
h. Helping our company find opportunities for contracts outside the 8(a) program N=829	3%	7%	30%	22%	30%	8%
i. Helping our company negotiate a federal contract N=823	7%	12%	36%	13%	20%	13%
j. Helping our company find credit and financing N=820	6%	14%	43%	10%	15%	12%
k. Treating our company with respect and courtesy N=833	38%	36%	16%	4%	5%	1%
l. Making an overall effort to help our company N=822	20%	24%	23%	15%	16%	2%

m. Please list any other items below.

Appendix II
GAO's Survey of 8(a) Firms

8. Please rate the priority that SBA should give to implementing each of the changes below. (Check one for each row.)

	Priority for making this change					
	Very high priority (1)	High priority (2)	Medium priority (3)	Low priority (4)	No change needed (5)	Uncertain (6)
a. SBA should increase the number of ways it informs 8(a) companies about procurement opportunities. N=828	57%	26%	11%	3%	3%	2%
b. SBA should emphasize meeting individually with each 8(a) company to provide assistance. N=829	37%	31%	20%	5%	5%	2%
c. SBA should emphasize site visits to 8(a) companies to better understand the company and its operations. N=829	28%	23%	26%	14%	8%	2%
d. SBA should improve training for 8(a) companies. N=828	20%	23%	34%	12%	7%	4%
e. SBA should do more to help 8(a) firms find credit and financing. N=831	25%	23%	29%	11%	7%	6%
f. SBA should increase the skill level of its 8(a) program staff. N=824	25%	24%	24%	10%	11%	6%
g. SBA should increase the number of 8(a) staff in its district offices. N=826	24%	21%	22%	12%	9%	12%
h. SBA should simplify the initial 8(a) application. N=828	22%	18%	18%	15%	21%	5%
i. SBA should simplify the 8(a) program's annual reporting requirements. N=828	25%	19%	22%	14%	15%	5%
j. SBA should make sure that contacts at federal agencies are familiar with the 8(a) program. N=829	63%	20%	10%	2%	3%	2%
k. SBA should increase efforts to link 8(a) companies with specific federal program managers. N=823	71%	19%	7%	1%	1%	1%

1. Please list any other items below.

Appendix II
GAO's Survey of 8(a) Firms

9. The following seven federal agencies award the most 8(a) contracts, on the basis of dollar value. Has your company tried to get an 8(a) contract with any of these federal agencies? *(Check one for each row.)*

	Yes (1)	No (2)	Uncertain (3)
a. Air Force N=815	57%	39%	4%
b. Army N=816	65%	31%	4%
c. Navy N=794	53%	42%	4%
d. General Services Administration (GSA) N=809	56%	39%	6%
e. National Aeronautics and Space Administration (NASA) N=788	32%	62%	6%
f. Veterans Affairs N=805	44%	52%	5%
g. Department of Energy N=787	33%	62%	6%

10. Has your company tried to get 8(a) contracts with any other federal agencies? *(Check one.)* N=821

1. 55% Yes → Please list up to three agencies:

Respondents listed 38 different agencies in response to this question. However, only one agency—the Department of Transportation—was listed more than 10 percent of the time. The remaining 37 agencies generally fell far below Transportation's 17 percent response rate.

2. 40% No → Continue with next question.

3. 5% Uncertain → Continue with next question.

11. What is the total number of 8(a) contracts for which your company has applied? Please include both competitive and sole-source contracts. *(Check one.)* N=836

1. 9% None
2. 15% 1 to 2
3. 22% 3 to 5
4. 16% 6 to 10
5. 16% 11 to 20
6. 11% 21 to 30
7. 4% 31 to 100
8. 4% Over 100
9. 3% Uncertain
10. 0% Other *(Please describe.)*

12. How many total 8(a) contracts have been awarded to your company? *(Check one.)* N=841

1. 36% None
2. 29% 1 to 2
3. 16% 3 to 5
4. 10% 6 to 10
5. 5% 11 to 20
6. 3% 21 to 50
7. 1% 51 to 100
8. 0% Over 100
9. 1% Uncertain
10. 0% Other *(Please describe.)*

Appendix II
GAO's Survey of 8(a) Firms

13. In 1999, what percentage of your company's total revenue was earned from 8(a) contracts that you were awarded? (Check one.) N=840

- 1. 45% None
- 2. 17% 1 to 10 percent
- 3. 10% 11 to 25 percent
- 4. 12% 26 to 50 percent
- 5. 10% 51 to 75 percent
- 6. 6% 76 to 100 percent
- 7. 0% Uncertain
- 8. 0% Other (Please describe.)

14. Which of the following types of 8(a) contracts has your company been awarded? (Check all that apply.) N=837

- 1. 37% No 8(a) contracts yet
- 2. 32% Competitive
- 3. 49% Sole-source
- 4. 2% Uncertain
- 5. 1% Other (Please describe.)

15. Since the year your company joined the 8(a) program, how many subcontracts do you believe your company has been awarded because you are certified as an 8(a) firm? (Check one.) N=840

- 1. 70% None
- 2. 13% 1 to 2
- 3. 8% 3 to 5
- 4. 4% 6 to 10
- 5. 1% 11 to 20
- 6. 1% 21 to 50
- 7. 0% 51 to 100
- 8. 0% Over 100
- 9. 1% Uncertain
- 10. 1% Other (Please describe.)

16. In 1999, what percentage of your company's total revenue was earned from these subcontracts you were awarded (as reported in the previous question)? (Check one.) N=837

- 1. 73% None
- 2. 14% 1 to 10 percent
- 3. 5% 11 to 25 percent
- 4. 4% 26 to 50 percent
- 5. 1% 51 to 75 percent
- 6. 1% 76 to 100 percent
- 7. 1% Uncertain
- 8. 0% Other (Please describe.)

Appendix II
GAO's Survey of 8(a) Firms

Background

17. Which of the following describe your company's current ownership status? (Check all that apply.) N=853

1. 24% Asian American
2. 38% Black/African American
3. 27% Hispanic American
4. 10% Native American
5. 5% Veteran
6. 16% Woman
7. 2% Other (Please describe.)

18. Which of the following best describe your company's current focus? (Check all that apply.) N=853

1. 2% Agriculture, forestry, fisheries
2. 33% Construction
3. 7% Manufacturing
4. 0% Mining
5. 58% Services
6. 5% Transportation
7. 6% Utilities, communications
8. 6% Wholesaling, retailing
9. 16% Other (Please describe.)

19. How long was your company in business before you joined the 8(a) program? (Check one.) N=843

1. 11% Less than 2 years
2. 39% 2 to 4 years
3. 21% 5 to 7 years
4. 12% 8 to 10 years
5. 17% Over 10 years
6. 0% Uncertain
7. 0% Other (Please describe.)

20. In what year did your company join the 8(a) program? (Check one.) N=842

1. 1% Before 1990
2. 1% 1990
3. 6% 1991
4. 8% 1992
5. 8% 1993
6. 13% 1994
7. 9% 1995
8. 11% 1996
9. 11% 1997
10. 12% 1998
11. 19% 1999
12. 1% Uncertain
13. 0% Other (Please describe.)

Appendix II
GAO's Survey of 8(a) Firms

21. How many total years of experience does your company's owner have managing this firm and other firms? (Check one.) N=848

- 1. 1% Less than 2 years
- 2. 5% 2 to 4 years
- 3. 12% 5 to 7 years
- 4. 12% 8 to 10 years
- 5. 70% Over 10 years
- 6. 0% Uncertain
- 7. 0% Other (Please describe.)

22. In what SBA region is your company located? (Check one.) N=847

- 1. 2% Region I - CT, ME, MA, NH, RI, VT
- 2. 7% Region II - NJ, NY, Puerto Rico, Virgin Islands
- 3. 26% Region III - DE, MD, PA, VA, WV, DC
- 4. 16% Region IV - AL, FL, GA, KY, MS, NC, SC, TN
- 5. 7% Region V - IL, IN, MI, MN, OH, WI
- 6. 13% Region VI - AR, LA, OK, NM, TX
- 7. 4% Region VII - IA, KS, MO, NE
- 8. 3% Region VIII - CO, MT, ND, SD, UT, WY
- 9. 14% Region IX - AZ, CA, HI, NV
- 10. 6% Region X - AK, ID, OR, WA
- 11. 0% Uncertain
- 12. 0% Other (Please describe.)

Appendix II
GAO's Survey of 8(a) Firms

23. How has your participation in the 8(a) program affected the following areas? *(Check one for each row.)*

	Very positive (1)	Generally positive (2)	No impact (3)	Generally negative (4)	Very negative (5)	Too early to tell/ Uncertain (6)
a. Net income N=834	19%	29%	33%	4%	4%	9%
b. Number of employees N=831	16%	24%	49%	2%	2%	7%
c. Capital assets N=823	10%	23%	54%	3%	3%	8%
d. Income from federal contracts (prime or subcontract) N=819	20%	29%	37%	2%	3%	9%
e. Income from nonfederal contracts (prime or subcontract) N=827	5%	17%	64%	2%	4%	9%
f. Access to credit and financing N=831	7%	17%	61%	2%	4%	8%
g. Reputation of your company N=835	20%	29%	39%	2%	2%	8%
h. Overall success of your company N=826	19%	30%	38%	2%	2%	9%

i. Please list any other items below.

Appendix II
GAO's Survey of 8(a) Firms

24. Please add any comments you wish on the issues in this survey or other matters related to the 8(a) program.

Thank you very much for participating in our survey.

Comments From the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

JUL 10 2000

Mr. Stanley J. Czerwinski
Associate Director
Housing, Community Development,
and Telecommunications Issues
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled *SBA Could Better Focus Its 8(a) Program to Help Firms Obtain Contracts*. GAO/RCED-00-196, Code 385824. We have reviewed the draft report and concur with its recommendations.

We offer the following comments for your consideration:

- (1) Page 1. In the first paragraph, you refer to \$6 billion in 8(a) contracts in FY 1999. The \$6 billion figure represents 8(a) contracts over \$25,000. The total dollars awarded in FY 1999 is \$6.2 billion.
- (2) Page 2. In the last sentence of the second paragraph, you state that at the time of your review, SBA officials were uncertain whether the Business Assessment Tool would be implemented. We recommend that the sentence be revised to read: "SBA piloted a Business Assessment Tool in 1999 that would evaluate firms' business development needs, but at the time of our review, SBA had not completed their review of the pilot."
- (3) Page 4. In the third paragraph, the report states: For example, our analysis of SBA's fiscal year 1998 program data showed that 50 percent (\$3.2 billion) of the dollar value of the 8(a) contracts and modifications went to only 309 of the over 6,000 firms in the program, while over 3,000 firms did not get any program contracts.

Appendix III
Comments From the Small Business
Administration

Mr. Stanley J. Czerwinski

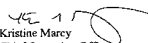
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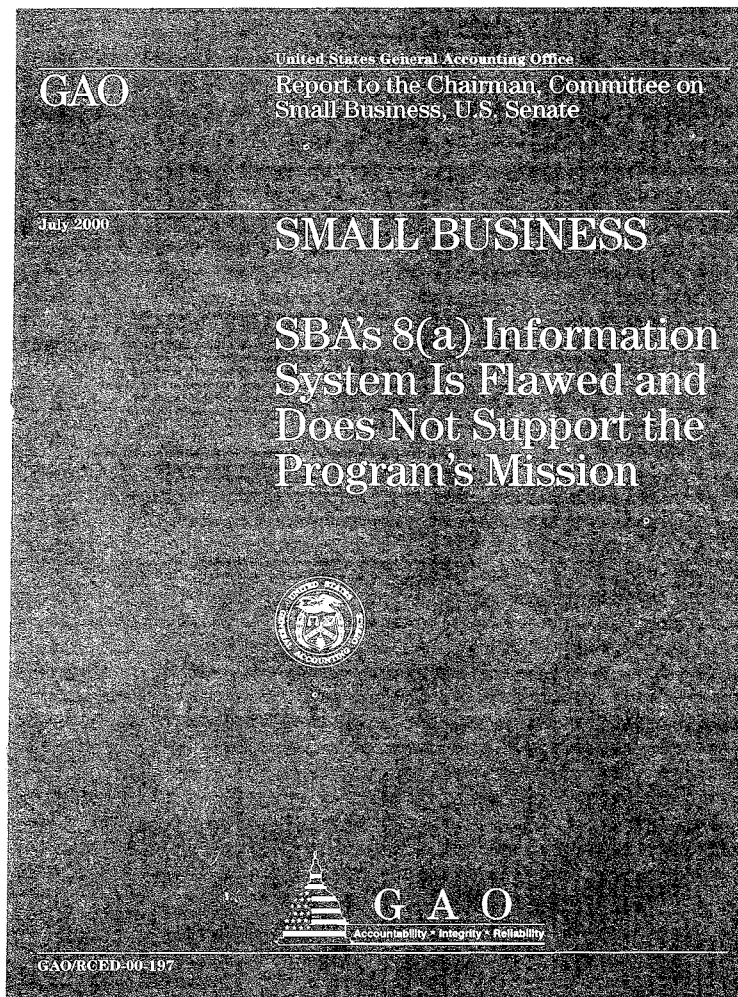
This statement appears to indicate that all 8(a) contractors are seeking 8(a) contracts at the same time. To clarify, we suggest that you insert the following immediately after the above cited sentence. "It should be recognized that the developmental status of each firm in the program varies greatly in any given year. Some firms are in the developmental stage with less than a year in the program while others are in the transitional stage. Therefore, the number of firms that seek and receive 8(a) contracts will be less than the total number of firms in the program." Also, we recommend that you substitute "nearly 6,000 firms" for "more than 6,000 firms."

(4) Page 8. In the third paragraph, we recommend that the last two sentences be revised to read: SBA piloted a Business Assessment Tool in 1999 that would evaluate firms' business development needs, but at the time of our review, SBA officials had not completed their assessment of the pilot initiative. SBA has attempted to enhance the training component of the program over the last several years, but its efforts are limited in the number of firms they can serve due to funding constraints.

Should you have questions on these comments, please contact Delorice Ford, Associate Administrator for the 8(a) Business Development Program at 202-205-7430.

Sincerely,


Kristine Marcy
Chief Operating Officer





United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-285284

July 19, 2000

The Honorable Christopher S. Bond
Chairman, Committee on Small Business
United States Senate

Dear Mr. Chairman:

The Small Business Administration's (SBA) 8(a) program is a business development and contracting program for small socially and economically disadvantaged firms. Firms that are certified by SBA for participation in the program are eligible to receive contracts that federal agencies set aside for 8(a) firms and business development assistance from SBA in the form of technical assistance and management training. In fiscal year 1999, about 6,000 firms participated in the 8(a) program, and \$6 billion in federal contracts were awarded to participating firms. SBA developed and maintains an information system for the program containing information about the firms, such as the location, minority status, and gender of the owners, and the government contracts awarded to the firms while they participate in the program. SBA uses this information to report on the program's results to the Congress, manage the program, and monitor the progress of 8(a) firms.

Concerned about the quality of the information used to manage the 8(a) program, you asked us to examine selected processes and procedures to assess the strengths and weaknesses of the information system as a management tool for SBA. As agreed with your office, this report addresses the following questions: (1) Does the system meet the information needs of SBA field and headquarters staff? (2) What plans, if any, does SBA have for improving the existing system?

Results in Brief

The 8(a) information system, while intended to be a comprehensive tool enabling SBA to monitor the program, does not meet the information needs of headquarters or district officials. Potentially useful information, such as the amount of training and assistance provided for participating firms, is not captured as part of SBA's information-gathering process. This limits SBA's ability to assess whether its efforts have an impact on the ultimate performance goal of creating commercially viable and stable firms. In addition, because of recent changes in the 8(a) contracting process, most

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federal agencies are required to submit quarterly contracting data to SBA's headquarters instead of submitting copies of contracts to SBA's district offices. Some federal agencies have not submitted the quarterly information, and some of the information that has been submitted has not been in a usable format, so it has not been entered into the system or provided for the district offices, according to SBA's headquarters officials. These problems have severely undermined the completeness and accuracy of the information in the system on contracts. For example, the total value of the contracts awarded to participating firms is underrepresented by the system, on average, by nearly \$500 million annually, according to SBA. The system is so difficult to use that most of the district offices we visited had devised other methods—including maintaining redundant local systems—to obtain the information they needed in a timely fashion.

SBA plans to update the 8(a) information system as part of an agencywide information systems modernization initiative. Although program officials have recognized the need to update the system since 1996 and have planned other update efforts, none of them resulted in substantial progress in improving the information system. SBA has an agencywide information systems modernization initiative under way, but planning for the modernization of the 8(a) system will not be completed for some time, according to SBA. In the meantime, SBA has begun to develop a strategic information technology plan for the 8(a) program that combines and updates recommendations from the agency's earlier business process reengineering studies, including efforts to update the information system. These studies include an April 1999 review that recommended that SBA (1) develop automated applications for firms wishing to enter the program, (2) consolidate all program information sources into one system, and (3) use another federal information system—the Federal Procurement Data System—as a source for 8(a) contract data.

We provided SBA with a draft of this report for review and comment. SBA concurred with the report's recommendations and provided technical clarifications, which were incorporated as appropriate.

Background

The Small Business Act, as amended, authorizes the 8(a) program to help socially and economically disadvantaged small businesses gain access to the economic mainstream of American society. Firms that enter the program are eligible to receive 8(a) contracts from federal agencies without competition from firms outside the program. Firms in the program may also receive training and other assistance through SBA.

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To be eligible for the 8(a) program, a firm must be a small business that is at least 51-percent owned and controlled by one or more socially and economically disadvantaged individuals. A firm is considered small if it meets size standards established by SBA for its particular industry. Under the program, certain ethnic groups such as African Americans and Hispanic Americans are presumed to be socially disadvantaged. Other individuals can be admitted to the program if they can adequately document that they are disadvantaged. To meet the economically disadvantaged test, each individual must have a net worth of less than \$250,000, excluding his or her ownership interest in the firm and personal residence. Also, a firm must generally have been in business for at least 2 years and possess a reasonable prospect for success as determined by SBA on the basis of the firm's operating revenues and the firm owner's technical and management experience, among other things.

Once a firm is accepted into the program, a business opportunity specialist in the SBA district office that serves the geographical area where the firm's principal place of business is located is assigned to service the firm during its participation in the program. The business opportunity specialist is responsible for, among other things, reviewing and approving contract offerings, entering and updating financial and contracting information in the 8(a) information system, assisting the firm with preparing a business plan, conducting annual reviews of the firm's progress in implementing its plan, and analyzing year-end financial statements for certain compliance issues.

SBA's current 8(a) information system was developed in response to the Small Business Act, as amended by the Business Opportunity Development Reform Act of 1988, which required SBA to develop and implement a process for the systematic collection of data on the operations of the 8(a) program and report annually to the Congress.¹ The mandate, among other things, required SBA to report data on the demographics of participating firms and the dollar value of the contracts the firms received, and to assess what additional resources are needed to provide services for firms in the program. SBA encountered numerous problems in developing the system, which was originally scheduled to be complete in 1990. Our previous work criticized the agency for not following federal regulations and guidelines

¹ See sec. 7(i)(16) of the Small Business Act, as added by sec. 408 of the 1988 Reform Act (15 U.S.C. 896(i)(16)).

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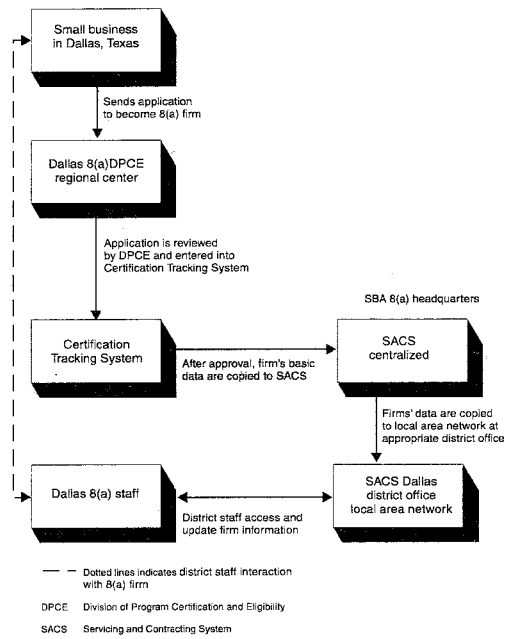
for defining the requirements of the system in relation to the agency's mission and users' needs.²

When SBA's information system was implemented in 1995—5 years after SBA's original projection—SBA described it as a comprehensive tool that would enable the agency to monitor the assistance provided for, the contracts awarded to, and the progress made with business development. The system, referred to as SACS/MEDCOR, is made up of two parts: the Servicing and Contracting System (SACS) and the Minority Enterprise Development Central Office Repository (MEDCOR). Basic information about 8(a) firms, including such demographic data as the location, minority status, and gender of the owners, is stored in SACS, while data about proposed and awarded contracts resides in MEDCOR.

SACS/MEDCOR is maintained at the district-office level, and information is transmitted periodically to a centralized location for headquarters' use. Data on firms applying to the program are initially entered into another 8(a) information system and are then transferred to SACS/MEDCOR when the firms are accepted into the program. Figure 1 illustrates how data are entered into SACS/MEDCOR from the point of a firm's application to enter the program.

² See *Small Business: Problems Continue With SBA's Minority Business Development Program* (GAO/RCED-93-145, Sept. 17, 1993) and *Small Business: SBA Cannot Assess the Success of Its Minority Business Development Program* (GAO/RCED-94-276, July 27, 1994).

Figure 1: Processing of Data on 8(a) Firms



**SBA's 8(a) Data System
Does Not Meet Its
Needs**

SACS/MEDCOR, while intended to be a comprehensive tool enabling SBA to monitor the progress with business development, the contract awards, and the program performance, does not meet the information needs of 8(a) headquarters or district officials. The system does not allow for the tracking of training or assistance provided for firms, making it difficult to assess the program's effectiveness. Also, recent changes in the 8(a) contracting process have made the contract information in the system unusable. In addition, the system is so difficult to use that most of the district offices we visited had devised other methods—including maintaining redundant local systems—to obtain the information they needed in a timely fashion. Other problems, such as data validation weaknesses caused by the removal of edit checks from the system and unclear security procedures, also exist.

**The System Does Not Track
Business Development
Activities**

SBA does not currently have a method for systematically tracking the training and assistance that 8(a) firms receive. SBA's Deputy Assistant Administrator for Technology within the office that oversees the 8(a) program said that SBA had planned for its information system to track assistance provided through SBA's management assistance program but that this part of the system was never used because the management assistance program's appropriation declined about the time the system was implemented. Also, according to SBA, the system was obsolete by the time it was implemented because the program's emphasis shifted from client-specific technical assistance, accomplished under task orders, to classroom-type executive training, provided by recognized educational institutions. If information on training and assistance is needed, the 8(a) program manager said headquarters would send an information request to the district offices. However, SBA's district office officials in Atlanta, Dallas/Fort Worth, New York City, and San Francisco told us that they do not have a centralized system to track the training or assistance that they or others provide for 8(a) firms. SBA's District Office officials in Washington, D.C., said that since SBA does not have a centralized system to track the training or assistance provided for 8(a) firms, they maintain a spreadsheet with this information.

SBA managers said that the lack of a system to track and assess the results of business development activities creates a weakness in the program because it is difficult to assess the program's effectiveness. The officials said that the system's inability to record this type of training and assistance could lead to an underaccounting of the benefits that firms receive from the

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program. For example, a district manager noted a case in which an 8(a) firm received considerable assistance developing its marketing and other capabilities. This firm, through the auspices of the district office, later negotiated and won a contract with a commercial firm. This outcome could not be credited within the system because (1) staff have no way of recording the training and assistance provided for firms other than in informal notations and (2) the contract awarded to the firm was not an 8(a) contract, so the award information could not be noted in the system.

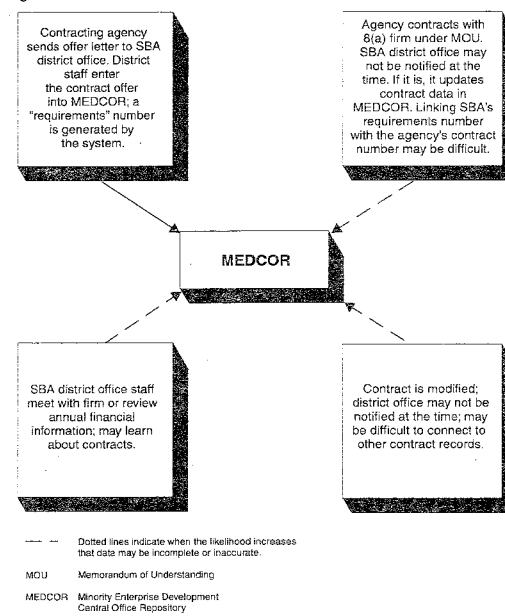
SBA has piloted a system—the Business Assessment Tool—for use by district business opportunity specialists to help define the developmental needs of 8(a) firms. The assessment tool was designed to match information from a series of 58 questions used to assess a firm's developmental assistance needs for the business training and counseling resources provided by SBA and other service providers. The tool also provided a mechanism for tracking training and assistance. In July 1999, SBA piloted the Business Assessment Tool at 14 SBA district offices, where it was used to assess 53 firms. SBA officials said that the tool, which is not integrated into SBA's current information system, is being reassessed because the pilot showed that it could be made more user friendly. For example, if a business opportunity specialist was not able to complete all the entries in one session, the system would not save the entries already completed.

Recent Changes in the Contracting Process Undermined the 8(a) Information System's Completeness and Accuracy

Headquarters and district staff maintained that they could no longer ensure that the 8(a) contract award information in the system is complete and accurate. District and headquarters staff have been responsible for entering data on 8(a) contracts. These entries can take place at various points: (1) when a contract requirement is sent to SBA for approval, (2) when a contract is actually awarded, and (3) when a contract is modified. This process is illustrated in figure 2.

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Figure 2: Flow of Contract Data



District staff cite a marked decrease—estimated at up to 50 percent at one district office—in the notification of contract awards and modifications from contracting agencies during fiscal year 1999. SBA officials estimated that the 8(a) contracting amounts are underrepresented in SACS/MEDCOR,

on average, by nearly \$500 million annually when compared with data from the Federal Procurement Data System (FPDS). According to SBA officials, the cause of this decrease is a recent change in the way that contracting agencies interact with and report back to SBA when contracts are awarded. Though agencies must report information on contracts of over \$25,000 to FPDS, which is maintained by the General Services Administration, they are no longer required to provide SBA's district offices with copies of 8(a) contracts when contracts are awarded. Rather, most agencies are required to provide SBA's headquarters with contract information on a quarterly basis.³ However, some agencies have not provided the information, and some of the information that has been provided has not been in a usable format, so it has not been entered into the system or provided for the district offices, according to headquarters officials.

District staff said that on occasion, they have become aware of contracts only because of incidental contacts with the firms they monitor—when issues arise between the contractor and the contracting agency—or as a part of their ongoing effort to maintain complete and accurate information for their files. District officials said they cannot readily produce accurate reports on the number of contracts awarded to 8(a) firms in their district. In fact, staff in one district office said they had been questioned by their district office director about why the number of contracts awarded to firms in their district had decreased dramatically when in fact the information system lacked data on an estimated 50 percent of the contracts awarded. Nevertheless, staff in every district we visited said that they spend time entering contracting data into the system.

Recognizing this shortcoming, SBA began using FPDS data in mid-fiscal year 2000 to prepare its fiscal year 1999 report to the Congress. However, difficulties that SBA encountered in matching its demographic information on firms to the contract information on 8(a) firms coming from FPDS caused SBA to miss its April 30 deadline for providing the Congress with its fiscal year 1999 report. SBA must connect FPDS data with information on 8(a) firms in its database in order to report on the mix of program participants and their success in winning contract awards. According to SBA, this matching entailed considerable staff effort. Also, without the linkages, the data cannot be broken down by district offices; hence, headquarters and district management do not have accurate numbers on

³ SBA plans this quarterly reporting to be an interim measure until the agency can convert to using FPDS.

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the contract awards facilitated by each office. One SBA official noted that from at least half to perhaps all of one staff person's time is required over the course of the year to produce the annual report.

Additional Data Quality Problems Exist in the System

Our review of the current system uncovered additional data quality problems. We called 100 randomly selected firms to verify firms' addresses and found that about 10 percent of the data examined on these firms were inaccurate or incomplete. In addition, when we examined selected data from SACS/MEDCOR to test for logic and consistency among related data elements, we found anomalies in the data. For example, whereas each 8(a) firm has a single designated chief executive officer (CEO)—and may have multiple partners—the database showed that some firms did not have a CEO designated and others had multiple CEO designations. A knowledgeable SBA official told us that one reason for the data quality problems is that SACS/MEDCOR has a limited ability for edit checks on data and that even district offices known for quality data entry practices had been found to have data quality difficulties, such as duplicated information for some firms.

Using the system to track a firm over time can also be problematic. For example, if a firm changes its name—prompted, for example, by a new owner—SBA staff, when entering the firm's new name into the system, must remember to manually record the firm's previous name in a "history" file if a historical link is to be maintained in SACS/MEDCOR. Without this manual intervention, no record of the firm under its prior name would exist within the system. The lack of an automated process to record name change histories could impair the ability of SBA staff to manage or investigate their firms' status in the program.

Inefficient System Does Not Meet the Needs of District Office Staff

The current 8(a) information system does not meet the needs of district office staff, and as a result, district offices have developed redundant local systems. In a 1997 report, an SBA contractor said that in its survey of district offices, one district office said that SACS/MEDCOR "does not benefit workers (not a useful tool);" staff from another district said SACS/MEDCOR is "too complicated" and "cumbersome" and "does not help the BOS [business opportunity specialist]." Other districts had similar complaints. Four of the five district offices we visited—which together, are responsible for approximately 30 percent of the 8(a) firms in the program—had instituted some procedure to cope with their difficulties with entering, retrieving, or processing information. The office strategies ranged from

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establishing a specific staff position to develop specialized reports and assist business opportunity specialists and contracting officers in their use of the system to developing and maintaining redundant local systems that staff found easier and more versatile to use. Although individualized reports and queries can be produced from SACS/MEDCOR through separate reporting software, some district staff had difficulty with the software or did not use it. District staff also noted that they did not find the standard reports available in the current system useful for their management needs.

Another problem with the current system is that the numbering scheme for contracts does not match the contracting agencies' contract numbers, thereby making it difficult for district staff to enter information pertaining to the contracts. When district staff enter a new contract offer into SACS/MEDCOR, the system automatically assigns a "requirements" number. This number is used to uniquely identify the contract offer (and later, the awarded contract and any associated contract modifications). If SBA's requirements number is not provided by the contracting agency on its award letter, district staff must explore SACS/MEDCOR for the associated data or, as a last resort, call the contracting agency and request that staff there look up the SBA number and provide it:

System Security Could Be Strengthened

The nature of SACS/MEDCOR—software and data located at both the headquarters- and district-office levels—creates a situation in which the data on 8(a) firms and contracts are only as secure as the measures taken at both levels to protect it. The SACS/MEDCOR application software and data collected on 8(a) firms are resident on the local network servers in the 67 district offices, and the data are uploaded periodically (generally once a week) to SBA's headquarters, where the national data are stored and can be accessed by headquarters staff. Data are input and maintained at both the district offices and the 8(a) headquarters office, and each office determines how to control access. Therefore, data that are input at each location are only as secure as the security measures—including access controls—at that location. Access should be limited to only the data and functions that individual staff need to perform their assigned duties.⁴ However, at several of the district offices we visited, business opportunity specialists could review and change system data for any firm in the district.

⁴ See *Federal Information System Controls Audit Manual*, vol. 1 (GAO/AIMD-12-19.6, Jan. 1999).

In a recent review of agencywide security measures, we found that "SBA has not developed procedures to deal with risk assessments and to provide a framework for managing risk and monitoring the adequacy of controls. Standard Operating Procedures are obsolete."⁶ SBA recently developed standard operating procedures for agencywide security issues. However, these procedures do not address the 8(a) program specifically, and the program is operating under Standard Operating Procedures established in 1990 before the system was developed.

**No Substantial
Improvements Have
Been Made to the
System, but SBA Plans
to Modernize It As Part
of an Agencywide
Effort**

While efforts to update the information system were planned beginning in 1996, and program officials recognize that the current system is outdated, no substantial improvement has been made to the system. For example, an effort to automate the 8(a) application process was piloted in October 1996 but never adopted. Another effort to streamline and automate the annual review process performed by district business opportunity specialists has also not been completed. According to program managers, this lack of progress is due in large part to the frequent changes in the 8(a) program's leadership. As shown in figure 3, the office under which the program is administered has been managed by five different Associate Deputy Administrators during the 4-year period from March 1996 to March 2000. Each time the Associate Deputy Administrator changed, there were corresponding management changes in the career-level managers of the 8(a) program. According to program officials, these leadership changes have contributed to an environment in which progress on the information system, as well as on the 8(a) program overall, has languished. In addition, according to SBA's Deputy Assistant Administrator for Technology within the office that oversees the 8(a) program, SACS/MEDCOR was developed collaboratively by the 8(a) program office and SBA's information resource management office; however, the system was not developed in adherence with Federal Information Processing Standards. In his opinion, such adherence to established software development standards would have reduced or eliminated the problems with software development continuity caused by management turnover.

⁶See *Information Technology Management: SBA Needs to Establish Policies and Procedures for Key IT Processes* (GAO/AEMD-00-170, May 31, 2000).

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Figure 3: Time Line of SBA's 8(a) Information Systems (SACS/MEDCOR)

Terms of Associate Deputy Administrators for Government Contracting and Minority Enterprise Development										
Crusto	Stanley	Vacant	Nest	Whitmore	Hobson	Jenkins (Acting)	Hayes	Ballentine		
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Original implementation date for new system			SBA did a limited pilot test of system	SBA's survey identified major system design flaws	SBA implements system in all field offices	Automated application piloted (never adopted)	Contractor's studies on revising system		SBA reviews old surveys to prepare for modernization	
			GAO found that plans did not follow requirements and guidelines	GAO found system unable to provide basic data						
Events										

SBA is in the process of modernizing its information systems across the entire agency; however, the modernization of the 8(a) system will not begin for some time. The SBA modernization is planned in three phases:

- Phase 1 of the initiative will focus on the Loan Monitoring System, which aids in loan monitoring and oversight.
- Phase 2 is intended to modernize SBA's financial management, human resource, and procurement systems.
- Phase 3 will focus on government contracting, entrepreneurial development, and minority enterprise development—all functions that are part of the 8(a) program. SBA plans to start the planning activities for phase 3 in 2002.

While SBA has not yet entered phase 3 of the modernization initiative, managers of the 8(a) program are moving ahead with plans to consolidate and update recommendations from previous studies of the system requirements for the 8(a) business development program. One study, performed by SETA Corporation for SBA and delivered on April 26, 1999, presented the basis for a revised information system to support core 8(a) business functions. It identified user requirements and specifications for a

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recommended system, including (1) using automated applications to enter the 8(a) program, (2) consolidating all 8(a) information sources into one system, and (3) using the FPDS as a source for 8(a) contract data. Although the study identified user requirements, researchers did not talk with district office officials, who are the system's primary users.

Conclusions

The information system used in the 8(a) program is not providing the timely, accurate, complete, and appropriate information needed at the headquarters and district office levels to manage the program. District staff find the system cumbersome and difficult to use. Contracting data are so incomplete that the data cannot be used to provide meaningful management reports at either the headquarters or district level. Also, the system does not mirror the 8(a) program's stated goal of creating commercially viable and stable firms because no mechanism is in place to easily track the training received by firms or the assistance provided by district business opportunity or contract specialists that may result in additional contracts for the firms. Therefore, such activities cannot be readily measured in any meaningful way, and the success of individual activities, or of individual field offices, cannot be measured in an efficient manner. Although SBA is in the process of modernizing its information systems, the modernization of the 8(a) system will not begin for some time.

Recommendations

We recommend that the Administrator of the Small Business Administration ensure that her staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that

- provides a method for collecting data on appropriate performance measures, focusing on the assistance provided for 8(a) firms in addition to the number of 8(a) contracts awarded;
- takes advantage of the links to existing federal contract information sources, such as the Federal Procurement Data System, to minimize (1) the reporting responsibilities of contracting agencies and (2) data entry duties required at the district office level;
- is designed in light of current software and data management development procedures and business processes and allows maximum flexibility and ease of use by all levels of staff; and
- is protected at all levels by appropriate security controls, which are specifically addressed in up-to-date Standard Operating Procedures.

B-286284

In the interim, SBA should not continue to require 8(a) district staff to enter contracting information into the current system.

Agency Comments and Our Evaluation

We provided SBA with a draft of our report for review and comment. SBA concurred with the report's recommendations and did not take exception to the factual accuracy of the report. SBA provided additional information to clarify certain points, including, its initial development of a strategic information technology plan for the Office of Government Contracting and Minority Enterprise Development; the changing nature of the 8(a) program since SACS/MEDCOR was deployed; and the use of data from the Federal Procurement Data System for reporting to the Congress. We have incorporated this additional information within the report as appropriate and have included SBA's comments in appendix 1.

Scope and Methodology

To provide information on the history of the current 8(a) information system, we interviewed SBA's headquarters and district office officials. SBA was unable to provide much documentation on the development of its current system, so we relied extensively on documents that we had retained in our files from previous reviews of the 8(a) information system, our previous reports on the 8(a) program, and legislative history information and regulations.

To determine whether the system meets the information needs of SBA's headquarters and district office staff, we interviewed headquarters and district office officials, collected and analyzed documents and studies, and obtained and assessed the 8(a) SACS/MEDCOR database. We interviewed business opportunity specialists and contracting officers and their managers at five district offices: Dallas/Fort Worth; New York City; San Francisco; Washington, D.C.; and Atlanta. We selected the district offices on the basis of the number of 8(a) firms they oversee and the geographic location of the offices. These five offices oversee more than 30 percent of the firms in the SACS/MEDCOR file that SBA provided us with at the beginning of our review. We collected and analyzed documents, such as the user manuals for SACS/MEDCOR, and studies performed by contractors that outline recommendations for system changes. We also performed electronic data testing on SACS/MEDCOR to determine the accuracy, completeness, and reasonableness of key data elements.

E-255284

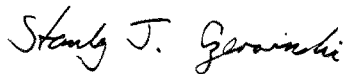
To determine what plans, if any, SBA has for improving the system, we interviewed SBA officials and obtained documentation for their plans. We also used information collected on our other reviews of SBA's overall information system modernization.

We performed our review from January through July 2000 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Honorable John F. Kerry, Ranking Member of the Committee; other interested congressional committees; the Honorable Aida Alvarez, Administrator, Small Business Administration; and other interested parties. Copies will be made available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-7631. Key contributors to this report were Susan Campbell, Andy Clinton, Curtis Groves, Barbara Johnson, and Kirk Menard.

Sincerely yours,



Stanley J. Czerwinski
Associate Director,
Housing, Community Development, and
Telecommunications Issues

Appendix I

Comments From the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

JUL 10 2000

Mr. Stanley J. Czerwinski
Associate Director
Housing, Community Development,
and Telecommunications Issues
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission, GAO/RCED-00-197, Code 385840.

We concur with the report's recommendations. I am pleased to advise that we have begun the development of a strategic information technology (IT) plan for the Office of Government Contracting and Minority Enterprise Development (GC/MED). This effort should result in a time-phased and fully "costed" plan to upgrade all of GC/MED's business processes, including those systems that support the 8(a) Business Program. The development of this IT strategic plan includes an important consultative process with a "team" of GC/MED managers and key staff that will focus on improving processes and systems to better service our district offices. This will ensure that the resulting strategic plan addresses the IT support requirements of all GC & MED programs in an integrated manner.

This planning process is undertaken in concert with our agency-wide systems modernization effort. Accordingly, it will guide our investment IT systems development for the 8(a) and other GC/MED programs for the foreseeable future. Because I regard this strategic IT plan as extremely important to remedying the deficiencies identified in your report, I will share the plan with you as soon as it is completed.

Electronic Reporting Program  Printed on Recycled Paper

GAO/RCED-00-197 SBA's 8(a) Information System

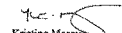
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Administration

Mr. Stanley J. Czerwinski

Page 2

While we take no exception to the factual accuracy of the report, you will find enclosed comments that we feel illuminate certain sections of the report. Should you have questions, please contact Delorice Ford, Associate Administrator for the 8(a) Business Development Program at 202-205-7430.

Sincerely,


Kristine Marcy
Chief Operating Officer

Enclosure

Appendix I
Comments From the Small Business
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ENCLOSURE

At page 2, the report states:

SBA has an agency-wide information systems modernization initiative underway, but planning for the modernization of the 8(a) system is not scheduled to begin until 2002. In the meantime, SBA plans to combine and update recommendations from its earlier efforts to update the system, including those from an April 1999 study that recommended that SBA (1) develop automated applications for firms wishing to enter the program, (2) consolidate all program information sources into one system, and (3) use another federal information system--the Federal Procurement Data System--as a source for 8(a) contract data.

SBA has begun development of a strategic information technology (IT) plan for the Office of Government Contracting and Minority Enterprise Development (GCMED). This effort is far more encompassing than a combination and updating of prior studies. Indeed, its methodology includes a review of all business process re-engineering (BPR) studies of the 8(a) program undertaken over the last several years. This review will help preclude duplication of effort, and allow us to extract maximum benefit from our earlier BPR investment. (Planning for Phase III of the systems modernization initiative will begin earlier than 2002 but clearly will not be completed for some time.)

At page 5, the report states:

SBA does not currently have a method for systematically tracking the training and assistance 8(a) firms receive.... SBA had planned for its information system to track assistance provided through SBA's management assistance program, but this part of the system was never used because the management assistance program's appropriation declined about the time the system was implemented.

As noted elsewhere in your report, the Servicing and Contracts System/Minority Enterprise Development Central Repository (SACS/MEDCOR) development occurred over a protracted period of time, and was ultimately implemented far later than originally planned. During the period of planning and systems development, the 7(i) management and technical assistance program changed dramatically in both magnitude and focus. That is, annual funding declined from approximately \$10 million to approximately \$2.5 million, and program design emphasis shifted from client-specific technical assistance, accomplished under task orders, to classroom-type executive education training, provided by recognized educational institutions. Because the management and technical assistance component of SACS/MEDCOR was built around task order services, it was obsolete by the time the system was deployed.

Since SACS/MEDCOR was deployed, much of 8(a) program design--including management and technical assistance--has changed. To this extent, we anticipate that the above referenced strategic IT plan, and subsequent systems development for the 8(a) program, will reflect changed business processes for district office "business

Now on p. 6.

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Now on pp. 8 and 9.

- 2 -

development" of 8(a) firms. This will lead to the capture of relevant data regarding management and technical assistance provided to firms by a variety of resources.

At page 7, the report states:

One official estimated that the 8(a) contracting amounts in fiscal year 1999 are underrepresented in SACS/MEDCOR by about \$1.8 billion...when compared with data from the Federal Procurement Data System (FPDS). According to agency officials, the cause of this decrease is a recent change in the way contracting agencies must interact with and report back to SBA when contracts are awarded...

In 1997 and 1998, 8(a) contracting authority was delegated to contracting agencies in order to streamline the program in the context of acquisition reform. Through delegation, SBA sought to make the 8(a) program a more attractive acquisition tool in a changing procurement environment. SBA also sought to re-direct the district offices' focus to providing more business development assistance to 8(a) firms.

At the time it delegated contracting authority, SBA management intended to co-opt from manual collection of data in SACS/MEDCOR to capturing contract information from FPDS to get more reliable and complete data. On average, the variance between SACS/MEDCOR and FPDS data aggregated nearly \$500 million annually. It should be noted that "purification" of SACS/MEDCOR contract data for Congressional reporting purposes has proven to be highly staff intensive over a number of years.

Management intended that quarterly reporting of 8(a) contracting activity by acquisition agencies would be an interim measure until SBA converted to the use of FPDS data. The Agency did not begin using FPDS data for reporting purposes until mid FY 2000, when it employed such data in preparation of its report to Congress on the 8(a) program for FY 1999. It should be noted that this first use of FPDS data entailed considerable staff effort to "match" FPDS contract records with SBA firm records. It is our intent that future 8(a) systems development simplify and automate the matching process.

Chairman BOND. Mr. Willemssen.

STATEMENT OF JOEL C. WILLEMSEN, DIRECTOR, CIVIL AGENCIES INFORMATION SYSTEMS, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, D.C.

Mr. WILLEMSEN. Thank you, Mr. Chairman. Senators, thank you for inviting us to testify today. As requested, I am going to briefly summarize our statement, which will discuss the results of our recent review of the SBA's management of information technology, and I am going to quickly run through a series of slides of which you also have a hard copy in front of you.

In looking at IT at the SBA, we focused on five areas: investment management, systems architecture, software development and acquisition, computer security, and IT human capital. In doing so, we particularly focused on policies, procedures, and practices and compared those with industry standards, legal requirements, and other generally-accepted guidance. Then, portraying where the SBA stood at a particular point in time, we gave indications by using either a blank circle to show that policies and procedures largely did not exist and practices were ad hoc; a half-circle to indicate that policies and procedures were predominantly current, although not all practices were in place; or a full circle to indicate things were being done in a comprehensive fashion.

Just quickly going through a summary of some of these key areas: first, the investment management area for information technology, that is, controlling projects from a cost, benefit, and risk perspective through their life. The SBA has much remaining to be done in this particular area. They are committed to doing that. They have an investment review board that has been established and is beginning to work. However, there is more to be done in terms of getting the necessary data out of those processes and also bringing that to bear on decisions that are to be made on investment technology projects. So there is more to be done, but the SBA does have a commitment for doing so.

The second major area has to do with systems architecture—a blueprint for an entity to follow to provide seamless, cost-effective services to its users. The SBA has made progress on this, due in large part to their planning efforts on their loan monitoring system. Among the areas they still need to work on, though, is the change management area, where system changes are made. They need to make sure that that is still linked to the overriding systems architecture.

Another critical area is software development and software acquisition. If you look at major information technology projects, software is often the underlying cause for why projects do not come in on time or over cost or do not meet performance goals. In this area, the SBA has a lot of work remaining. They are committed to doing so. I have noted in their statement, in the Administrator's statement this morning, that she plans to pursue more of their effort on the acquisition side rather than the development side, and we are encouraged by that.

Another important area is computer security. The SBA has made good progress on this in terms of making its staff aware of the need

for security and implementing necessary system controls. They still need a bit more effort in making assessments of the risk of threats and vulnerabilities to their systems and to the integrity of their data.

And then the last overall functional area we looked at in the information technology area was human capital—understanding clearly what it is you need both with in-house staff and contractor staff, making an assessment of your current inventory, identifying the gaps, strategizing to fill that gap, and periodically reporting on where you are. The SBA still has a long way to go. They have done some inventory efforts, but work remains to be done there.

This last slide just gives you an overall summary of the five IT functional areas and the 37 data points that we used in conducting our review and presenting the results. We have made, associated with this area, 18 recommendations to the SBA for improvement. The SBA has agreed with those recommendations. And I may also say, Mr. Chairman, the SBA has shown with its top management a clear commitment to implement these recommendations and to improve its management of information technology.

That concludes the summary of my statement and I also would be pleased to answer any questions. Thank you.

Chairman BOND. Thank you very much, Mr. Willemssen.

[The prepared statement and attachments of Mr. Willemssen follow:]

GAO

United States General Accounting Office

Testimony

Before the Committee on Small Business, U.S. Senate

For Release on Delivery
Expected at
9:30 a.m. EDT
Thursday,
July 20, 2000

INFORMATION TECHNOLOGY MANAGEMENT

Small Business Administration Needs Policies and Procedures to Control Key IT Processes

Statement of Joel C. Willemssen
Director, Civil Agencies Information Systems
Accounting and Information Management Division



Statement of Joel C. Willemssen
Director, Civil Agencies Information Systems
U.S. General Accounting Office

Mr. Chairman and Members of the Committee:

Thank you for inviting us to participate in today's hearing and discuss the Small Business Administration's (SBA) management of information technology (IT). At your request, we recently completed a review of SBA's IT management in five areas: (1) investment management, (2) architecture, (3) software development and acquisition, (4) information security, and (5) human capital management. We briefed your office on our results earlier this year, and today, at this hearing, our report containing a high-level summary of this information is being released.¹ After providing some brief background information, I would like to discuss each of the five areas in our review, including the recommendations we have made to improve IT management at SBA.

BACKGROUND

SBA depends on its IT environment to support the management of its programs. This environment includes 42 mission-critical systems running on legacy mainframes and minicomputers. Ten of these systems support administrative activities; the remaining 32 support loan activities, including loan accounting and collection, loan origination and disbursement, and loan servicing and debt collection.

According to SBA's self-assessment of its IT environment, the legacy systems are not effectively integrated and thus provide limited information sharing. The assessment also showed that SBA cannot depend on the systems to provide consistent information. Because of these problems, it has embarked on an agencywide systems modernization initiative to replace its outmoded legacy systems.

Our May report presented the results of our evaluation of SBA's management of IT in the areas of investment management, architecture, software development and acquisition, information security, and human capital. These five areas encompass major IT functions and are widely recognized as having substantial influence over the effectiveness of operations.

In each area, we reviewed SBA's IT policies and procedures and compared them against applicable laws and regulations, federal guidelines, and industry standards. We evaluated SBA's IT management using the Clinger-Cohen Act, Computer Security Act, and guidelines issued by the Chief Information Officer's Council, the Office of Management and Budget, the General Services Administration, the National Institute of Standards and Technology, the Software Engineering Institute, the Institute of Electrical and Electronics Engineers, Inc., and ourselves. We also reviewed selected SBA IT projects and activities to determine if practices complied with its policies and procedures and with industry standards. Finally, we assessed SBA's applicable policies, procedures, and practices for

¹ *Information Technology Management: SBA Needs to Establish Policies and Procedures for Key IT Processes* (GAO/AIMD-00-170, May 31, 2000).

the critical activities for each key process area and used three broad indicators to depict our results:



Blank Circle indicates that policies and procedures do not exist or are substantially obsolete or incomplete; and practices for planning, monitoring and evaluation are predominantly ad hoc, or not performed.



Half Circle indicates that policies and procedures are predominantly current and facilitate key functions; and selected key practices for planning, monitoring, and evaluation have been implemented.



Solid Circle indicates that policies and procedures are current and comprehensive for key functions; and practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards.

INVESTMENT MANAGEMENT:

LIMITED PROJECT SELECTION REVIEWS PERFORMED;

POLICIES AND PROCEDURES NEEDED

Properly implemented, IT investment management is an integrated approach that provides for the life-cycle management of IT projects. This investment process requires three essential phases: selection, control, and evaluation. In the selection phase, the organization determines priorities and makes decisions about which projects will be funded based on their technical soundness, contribution to mission needs, performance improvement priorities, and overall IT funding levels. In the control phase, all projects are consistently controlled and managed. The evaluation phase compares actual performance against estimates to identify and assess areas in which future decision-making can be improved.

Our assessments of SBA's investment management processes disclosed that policies and procedures were substantially incomplete; and practices were predominately ad hoc or not performed for most of the critical activities, as shown in figure 1.

Figure 1: Evaluation Summary – SBA’s Policies, Procedures, and Practices for Investment Management

Selection process	<input checked="" type="radio"/>	Control process	<input type="radio"/>
Selection data	<input type="radio"/>	Control data	<input type="radio"/>
Selection decisions	<input type="radio"/>	Control decisions	<input type="radio"/>

Evaluation process	<input type="radio"/>
Evaluation data	<input type="radio"/>
Evaluation decisions	<input type="radio"/>

SBA had made progress in establishing an investment review board and is beginning to define an investment selection process. However, it had not yet established IT investment management policies and procedures to help identify and select projects that will provide mission-focused benefits and maximum risk-adjusted returns. Likewise, SBA had not yet defined processes for investment control and evaluation to ensure that selected IT projects will be developed on time, within budget, and according to requirements, and that these projects will generate expected benefits. The agency had performed only limited reviews of major IT investments, and these reviews were ad-hoc since little data had been captured for analyzing benefits and returns on investment.

Without established policies and defined processes for IT investment, SBA cannot ensure that consistent selection criteria are used to compare costs and benefits across proposals, that projects are monitored and provided with adequate management oversight, or that completed projects are evaluated to determine overall organizational performance improvement. In addition, the agency lacks assurance that the collective results of post-implementation reviews across completed projects will be used to modify and improve investment management based on lessons learned.

To address IT investment management weaknesses, SBA planned to develop and implement an investment selection process that includes screening, scoring, and ranking proposals. It also planned to use its target architecture to guide IT investments. In addition, SBA planned to develop and implement an investment control process to oversee and control projects on a quarterly basis. As part of investment control, SBA intended to collect additional data from all investment projects and compare actual data with estimates in order to assess project performance.

SBA’s plans indicate a strong commitment to making improvements in this area; however, to establish robust IT investment management processes, additional actions are needed. Accordingly, we recommended that the SBA Administrator direct the chief information officer to establish policies and procedures and define and implement

processes to ensure that (1) IT projects are selected that result in mission-focused benefits, maximizing risk-adjusted return-on-investment; (2) projects are controlled to determine if they are being developed on time, within budget, and according to requirements; and (3) projects are evaluated to ascertain whether completed projects are generating expected benefits.

IT ARCHITECTURE MAINTENANCE PROCEDURES WERE LACKING

An IT architecture is a blueprint—consisting of logical and technical components—to guide the development and evolution of a collection of related systems. At the logical level, the architecture provides a high-level description of an organization's mission, the business functions being performed and the relationships among the functions, the information needed to perform the functions, and the flow of information among functions. At the technical level, it provides the rules and standards needed to ensure that interrelated systems are built to be interoperable and maintainable.

Our assessments of SBA's information architecture disclosed that SBA had drafted policies and procedures for key activity areas except for change management, and had drafted architecture components except for change management, as reflected in figure 2.

Figure 2: Evaluation Summary – SBA's Policies, Procedures, and Practices for IT Architecture

Business processes	●	Technical reference model	●
Information flows & relationships	●	Standards profiles	●
Applications	●	Change management	○
Data descriptions & relationships	●	Legacy systems integration	●
Technical infrastructure	●		

SBA had made progress with its target IT architecture by describing its core business processes, analyzing information used in its business processes, describing data maintenance and data usage, identifying standards that support information transfer and processing, and establishing guidelines for migrating current applications to the planned environment. However, procedures did not exist for change management to ensure that new systems installations and software changes would be compatible with other systems and SBA's planned operating environment.

Without established policies and systematic processes for IT architecture activities, SBA cannot ensure that it will develop and maintain an information architecture that will effectively guide efforts to migrate systems and make them interoperable to meet current and future information processing needs.

To address IT architecture weaknesses, SBA planned to establish a change management process for architecture maintenance, to ensure that new systems installations and software changes will be compatible with other systems and with SBA's planned operating environment. In addition, it planned to incorporate in the target architecture specific security standards for hardware, software, and communications.

To ensure that these planned improvements are completed and sound practices institutionalized, we recommended that the SBA Administrator direct the chief information officer to establish policies and procedures and define and implement processes to ensure that (1) the architecture is developed using a systematic process so that it meets the agency's current and future needs and (2) the architecture is maintained so that new systems and software changes are compatible with other systems and SBA's planned operating environment.

SOFTWARE ACQUISITION GUIDELINES OBSOLETE,
PRACTICES INCONSISTENT, BUT SYSTEMS DEVELOPMENT
PROCEDURES BEING ADOPTED

To provide the software needed to support mission operations, an organization can develop software using its staff or acquire software products and services through contractors. Key processes for software development include requirements management, project planning, project tracking and oversight, quality assurance, and configuration management. Additional key processes needed for software acquisition include acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support.

Our assessment of SBA's software development and acquisition processes disclosed that SBA had not established policies, its procedures were obsolete, and its practices were predominantly ad hoc for one or more critical activities, as shown in figure 3.

Figure 3: Evaluation Summary – SBA's Policies, Procedures, and Practices for Software Development and Acquisition

Requirements management	<input type="radio"/>	Acquisition planning	<input type="radio"/>
Project planning	<input checked="" type="radio"/>	Solicitation	<input type="radio"/>
Project tracking & oversight	<input type="radio"/>	Contract tracking & oversight	<input type="radio"/>
Quality assurance	<input type="radio"/>	Product evaluation	<input type="radio"/>
Configuration management	<input type="radio"/>	Transition to support	<input type="radio"/>

SBA lacked policies for software development and acquisition to help produce information systems within the cost, budget, and schedule goals set during the investment management process that at the same time comply with the guidance and standards of its

IT architecture. SBA's IT guidance and procedures were obsolete and thus rarely used for acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support. An existing systems development methodology was being adopted, however, to replace outdated guidelines that lacked key processes for software development. Our review of the selected software projects indicated that SBA's practices were typically ad hoc for project planning, project tracking and oversight, quality assurance, and configuration management.

Without established policies and defined processes for software development and acquisition, practices will likely remain ad hoc and not adhere to generally accepted standards. Key activities—such as requirements management, planning, configuration management, and quality assurance—will be inconsistently performed or not performed at all when project managers are faced with time constraints or limited funding. These weaknesses can delay delivery of software products and services and lead to cost overruns.

To address software development and acquisition weaknesses, SBA planned to implement formal practices, such as software requirements management and configuration management, on a project basis before establishing them agencywide. Specifically, SBA had selected the Loan Monitoring System (LMS) project as a starting point for identifying, developing, and implementing a new systems development methodology and associated policies, procedures, and practices. LMS therefore will serve as a model for future systems development projects.

While SBA's plan is a good first step, additional measures need to be taken to ensure agencywide improvements. To establish sound IT software development and acquisition processes, we recommended that the SBA Administrator direct the chief information officer to complete the systems development methodology and develop a plan to institutionalize and enforce its use; and develop a mechanism to enforce the use of newly-established policies in areas including but not limited to requirements management, project planning/tracking/oversight, quality assurance, configuration management, solicitation, contract oversight, and product evaluation.

PERIODIC RISK ASSESSMENTS NOT BEING PERFORMED; INFORMATION SECURITY PROCEDURES IN DRAFT FORM

Information security policies address the need to protect an organization's computer-supported resources and assets. Such protection ensures the integrity, appropriate confidentiality, and availability of an organization's data and systems.

Key information security activities include risk assessment, awareness, controls, evaluation, and central management. Risk assessments consist of identifying threats and vulnerabilities to information assets and operational capabilities, ranking risk exposures, and identifying cost-effective controls. Awareness involves promoting knowledge of security risks and educating users about security policies, procedures, and responsibilities. Evaluation addresses monitoring the effectiveness of controls and

awareness activities through periodic evaluations. Central management involves coordinating security activities through a centralized group.

Our assessments of information security at SBA disclosed that policies and procedures did not exist for risk assessments and were in draft form for other key activities; and that practices were not performed for one critical activity, as shown in figure 4.

Figure 4: Evaluation Summary – SBA's Policies, Procedures, and Practices for Information Security

Risk assessments	○
Awareness	◐
Controls	◐
Evaluation	◐
Central management	◐

SBA had not conducted periodic risk assessments for its mission-critical systems; the agency had only recently conducted a security workload assessment and a risk assessment for one system. Training and education had not been provided to promote security awareness and responsibilities of employees and contract staff. Further, security management responsibilities were fragmented among all of SBA's field and program offices.

SBA's computer security procedures for systems certification and accreditation were in draft form. Without security policies, SBA faces increased risk that critical information and assets may not be protected from inappropriate use, alteration, or disclosure. Without defined procedures, practices are likely to be inconsistent for such activities as periodic risk assessments, awareness training, implementation and effectiveness of controls, and evaluation of policy compliance.

To address information security weaknesses, SBA has hired additional staff to develop procedures to implement computer security policies and to manage computer accounts and user passwords. These staff are also responsible for performing systems security certification reviews of new and existing IT systems. In addition, SBA planned to finish development and testing of a comprehensive disaster recovery and business continuity plan.

To build on the actions taken and planned by SBA and ensure that a comprehensive, effective security program is established, we recommended that the SBA Administrator direct the chief information officer to establish policies and procedures and define and implement processes to ensure that

- periodic risk assessments are conducted to determine and rank vulnerabilities;
- an effective security awareness program is implemented;

- policies and procedures are updated, with new controls implemented to address newly discovered threats;
- the development and testing of SBA's comprehensive disaster recovery and business continuity plan is completed, then periodically tested and updated;
- security evaluations are conducted to ascertain whether protocols in place are sufficient to guard against identified vulnerabilities, and if not, remedial action taken as needed; and
- a centralized mechanism is developed to monitor and enforce compliance by employees, contract personnel, and program offices.

**WORKFORCE STRATEGIES AND PLANS NOT DEVELOPED;
HUMAN CAPITAL POLICIES AND PROCEDURES NEEDED**

The concept of human capital centers on viewing people as assets whose value to an organization can be enhanced through investment. To maintain and enhance the capabilities of IT staff, an agency should conduct four basic activities: (1) assess the knowledge and skills needed to effectively perform IT operations to support the agency's mission and goals; (2) inventory the knowledge and skills of current IT staff to identify gaps in needed capabilities; (3) develop strategies and implementation plans for hiring, training, and professional development to fill the gap between requirements and current staffing; and (4) evaluate progress made in improving IT human capital capability, using the results of these evaluations to continuously improve the organization's human capital strategies.

Our assessments of SBA's human capital processes disclosed that policies and procedures did not exist and that SBA was not performing critical activities, as shown in figure 5.

Figure 5: Evaluation Summary – SBA's Policies, Procedures, and Practices for IT Human Capital

Requirements	<input type="radio"/>
Inventory	<input checked="" type="radio"/>
Workforce strategies & plans	<input type="radio"/>
Progress evaluation	<input type="radio"/>

SBA had not established policies and procedures to identify and address its short- and long-term requirements for IT knowledge and skills. Similarly, it had not conducted an agencywide assessment to determine gaps in IT knowledge and skills in order to develop workforce strategies and implementation plans. Further, SBA had not evaluated its progress in improving IT human capital capabilities or used data to continuously improve human capital strategies.

Without established policies and procedures for human capital management, SBA lacks assurance that it is adequately identifying the IT knowledge and skills it needs to support its mission, is developing appropriate workforce strategies, or is effectively planning to hire and train staff to efficiently perform IT operations.

To address IT human capital management weaknesses, SBA planned to conduct a comprehensive assessment of training needs with a special emphasis on the needs of its IT staff. The survey is scheduled for fiscal year 2001 and will be conducted at both headquarters and SBA field offices.

While SBA's planned assessment should be useful, a more comprehensive program is needed to ensure that it hires, develops, and retains the people it needs to effectively carry out IT activities. To improve IT human capital management practices, we recommended that the SBA Administrator direct the chief information officer to establish policies and procedures and define and implement processes to ensure that SBA's IT and knowledge skills requirements are identified; periodic IT staff assessments are performed to identify current knowledge levels; workforce strategies are developed and plans implemented to acquire and maintain the necessary IT skills to support the agency mission; and SBA's human capital capabilities are periodically evaluated and the results used to continually improve agency strategies.

In summary, for SBA to enhance its ability to carry out its mission, it will require solid IT solutions to help it identify and address operational problems. However, many of SBA's policies and procedures for managing IT have either not been developed or were in draft form, and its practices generally did not adhere to defined processes. While the agency plans to improve its processes, additional actions are needed in each key IT process area to institutionalize agencywide industry standard and best practices for planning, monitoring, and evaluation of IT activities.

SBA has agreed with all of our recommendations and has stated that efforts are underway to address them. SBA has also emphasized that it is committed to improving IT management practices.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other members of the Committee may have at this time.

Contact and Acknowledgments. For information about this testimony, please contact Joel C. Willemssen at (202) 512-6253 or by e-mail at willemssenj.aimd@gao.gov. Individuals making key contributions to this testimony included William G. Barrick, Michael P. Fruitman, James R. Hamilton, and Anh Q. Le.



Small Business Administration's Management of Information Technology

Committee on Small Business
United States Senate
July 20, 2000



SBA's IT Management Evaluation Indicators

We evaluated five key IT areas at SBA --- investment management, architecture, software development and acquisition, information security, and human capital management. In doing so, we assessed applicable policies, procedures, and practices. We use three broad indicators to depict our results:



Blank Circle indicates that policies and procedures do not exist or are substantially obsolete or incomplete; and practices for planning, monitoring and evaluation are predominantly ad hoc, or not performed.



Half Circle indicates that policies and procedures are predominantly current and facilitate key functions; and selected key practices for planning, monitoring, and evaluation have been implemented.



Solid Circle indicates that policies and procedures are current and comprehensive for key functions; and practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards.

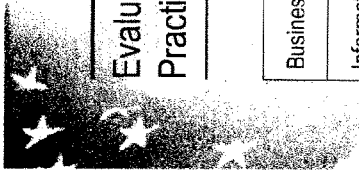


Evaluation Summary --- SBA's Policies, Procedures, and Practices for Investment Management

Selection process		Control process	
Selection data		Control data	
Selection decisions		Control decisions	

Evaluation process	
Evaluation data	
Evaluation decisions	

Incomplete or obsolete policies and procedures; ad-hoc practices
 Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation
 Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards



Evaluation Summary --- SBA's Policies, Procedures, and Practices for IT Architecture

Business processes		Technical reference model	
Information flows & relationships		Standards profiles	
Applications		Change management	
Data descriptions & relationships		Legacy systems integration	
Technical infrastructure			

Incomplete or obsolete policies and procedures; ad-hoc practices

Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation

Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards



Evaluation Summary --- SBA's Policies, Procedures, and Practices for Software Development and Acquisition

Requirements management	<input type="radio"/>	Acquisition planning	<input type="radio"/>
Project planning	<input checked="" type="radio"/>	Solicitation	<input type="radio"/>
Project tracking & oversight	<input type="radio"/>	Contract tracking & oversight	<input type="radio"/>
Quality assurance	<input type="radio"/>	Evaluation	<input type="radio"/>
Configuration management	<input type="radio"/>	Transition to support	<input type="radio"/>

☐ Incomplete or obsolete policies and procedures; ad hoc practices

☒ Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation

☐ Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards



Evaluation Summary --- SBA's Policies, Procedures, and Practices for Information Security

Risk assessments	
Awareness	
Controls	
Evaluation	
Central management	

Incomplete or obsolete policies and procedures; ad-hoc practices

Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation

Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards



Evaluation Summary --- SBA's Policies, Procedures, and Practices for IT Human Capital

Requirements	
Inventory	
Workforce strategies & plans	
Progress evaluation	

Incomplete or obsolete policies and procedures; ad-hoc practices

Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation

Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

SBA's Policies, Procedures, and Practices Evaluation Summary

Investment management	Selection process	<input checked="" type="radio"/>	Architecture	Technical reference model	<input checked="" type="radio"/>	Security	Risk assessments	<input type="radio"/>
	Selection data	<input type="radio"/>					Awareness	<input checked="" type="radio"/>
	Selection decisions	<input type="radio"/>					Controls	<input checked="" type="radio"/>
	Control process	<input type="radio"/>					Evaluation	<input checked="" type="radio"/>
	Control data	<input type="radio"/>					Central management	<input checked="" type="radio"/>
	Control decisions	<input type="radio"/>	Software development & acquisition	Requirements management	<input type="radio"/>	Human capital	Requirements	<input type="radio"/>
	Evaluation process	<input type="radio"/>					Inventory	<input checked="" type="radio"/>
	Evaluation data	<input type="radio"/>					Workforce strategies & plans	<input type="radio"/>
	Evaluation decisions	<input type="radio"/>					Progress evaluation	<input type="radio"/>
	Business processes	<input checked="" type="radio"/>						
Architecture	Information flows & relationships	<input checked="" type="radio"/>		Acquisition planning	<input type="radio"/>			
	Applications	<input checked="" type="radio"/>		Solicitation	<input type="radio"/>			
	Data descriptions & relationships	<input checked="" type="radio"/>		Contract tracking & oversight	<input type="radio"/>			
	Technical infrastructure	<input checked="" type="radio"/>		Product evaluation	<input type="radio"/>			
				Transition to support	<input type="radio"/>			

☐ Incomplete or obsolete policies and procedures; ad-hoc practices
☒ Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation
☐ Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO

United States General Accounting Office

Report to the Chairman, Committee on
Small Business, U.S. Senate

May 2000

INFORMATION TECHNOLOGY MANAGEMENT

SBA Needs to Establish Policies and Procedures for Key IT Processes



GAO

Accountability • Integrity • Reliability

GAO/AIMD-00-170



United States General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-285295

May 31, 2000

The Honorable Christopher S. Bond
Chairman
Committee on Small Business
United States Senate

Dear Mr. Chairman:

As the Small Business Administration (SBA) tries to transform itself into a "21st Century leading edge financial institution," it needs to identify and address operational problems that have agencywide implications. Evaluating SBA's management of information technology (IT) is a critical part of efforts to assess whether it has a sound foundation for addressing these problems. As you requested, our objective was to evaluate SBA's IT management in five key IT process areas: investment management, architecture, information security, software development and acquisition, and human capital management. On April 7, 2000, we briefed your office on the results of this work. The briefing slides are included in appendix I.

This report provides a high-level summary of the information presented at the briefing, including (1) background on SBA's mission and programs, IT environment, budgets, and staffing and (2) our review of SBA's policies, procedures, and practices in each IT area. SBA provided us with comments on a draft of the briefing, and we considered those comments in developing this report. SBA's comments are discussed in the "Agency Comments and Our Evaluation" section and are reprinted in appendix II.

Results in Brief

Although SBA plans to improve its key IT processes, many of SBA's policies and procedures for managing IT are currently in draft form or not yet developed. Specifically, SBA has not yet established policies to manage IT investments and human capital. In addition, procedures for maintaining SBA's enterprisewide IT architecture and for implementing information security policies are still in draft form and incomplete. Also, standards and procedures to support new software development are being adopted, and IT guidance for software acquisition is obsolete. In each of these areas, SBA intends to implement needed policies and procedures.

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While SBA intends to pursue best practices for IT planning, monitoring, and evaluation, its current practices do not generally adhere to defined processes. In particular, investment management activities are limited largely to reviewing IT proposals, architecture related activities are performed without a defined process, and software development and acquisition practices are predominantly ad-hoc. In the information security area, SBA lacks centralized oversight of the activities of its field and program offices. In addition, risk assessments have not been performed periodically on all mission-critical systems and security training has not yet been provided to employees and contractor staff. Human capital management activities are limited to a non-IT-specific training needs survey, and a human capital assessment has not been performed to identify short- and long-term IT knowledge and skills requirements. To its credit, SBA recognizes many of these IT management weaknesses and plans to make improvements in each key process area.

To improve SBA's IT management, we have made a number of recommendations in each area. SBA has agreed with our recommendations and has stated that efforts are underway to address them. SBA also emphasized that it is committed to improving IT management practices.

Background

SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small business and by helping businesses and families recover from natural disasters. SBA administers small business programs, including 8(a)¹ federal contracting set-asides and 7(a)² loans to help economically disadvantaged firms start, grow, and stay in business. SBA's disaster loan program offers financial assistance to businesses and families trying to rebuild in the aftermath of a disaster.

¹Sec. 8(a), Small Business Act, 15 USC 637(a): SBA's 8(a) program assists in the development of small companies that are owned and operated by socially and economically disadvantaged individuals. An 8(a) company is eligible for federal contracting set-asides and other business development support to gain access to the economic mainstream.

²Sec. 7(a), Small Business Act, 15 USC 636(a): the 7(a) loan program is for business start-ups and to meet the varied short- and long-term needs of existing small businesses. Under 7(a), SBA guarantees loans to small businesses that cannot obtain financing on reasonable terms through other channels.

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For fiscal year 2000, SBA's budget request was about \$995 million, including \$762 million in regular appropriations and \$233 million for contingency/emergency appropriations to support the disaster loan program. Based on the total IT budget expenditures incurred by the Office of the Chief Information Officer, the Office of Disaster Assistance, and the Office of the Chief Financial Officer, SBA had an average IT budget of about \$39 million annually from fiscal year 1997 through fiscal year 2000. IT expenditures were primarily for operations and maintenance activities, and limited funds were allocated for systems development activities and IT training.

To support the management of its programs, SBA depends on its IT environment, which includes 42 mission-critical systems running on legacy mainframe and minicomputers. Ten of these systems support administrative activities, the remaining 32 support loan activities, including loan accounting and collection, loan origination and disbursement, and loan servicing and debt collection.

SBA's self-assessment of its IT environment has shown that the legacy systems are not effectively integrated and thus provide limited information sharing. The assessment has also shown that SBA cannot depend on the systems to provide consistent information. Because of these problems, SBA has embarked on an agencywide systems modernization initiative to replace its outmoded legacy systems.

In fiscal year 1999, SBA reported having 127 IT staff to set policies, plan and oversee IT projects, operate and maintain computer systems, and provide computer training to employees. Also, SBA used about the same number of contractor staff for technical support and day-to-day operations and maintenance of systems.

Investment Management Policies and Procedures Are Needed, Limited Project Selection Reviews Were Performed

IT investment management is an integrated approach that provides for the life-cycle management of IT investments. This investment process requires three essential phases: selection, control, and evaluation. In the selection phase, the organization determines priorities and makes decisions about which projects will be funded based on the technical soundness of the projects, their contribution to mission needs, performance improvement priorities, and overall IT funding levels. The costs, benefits, and risks of all IT projects are assessed and the projects are compared against each other and ranked. In the control phase, all projects are consistently controlled and managed. Progress reviews, in which progress is compared against

projected cost, schedule, and expected mission benefits, are conducted at key milestones in each project's life cycle. The evaluation phase compares actual performance against estimates to identify and assess areas in which future decision-making can be improved.

SBA has made progress in establishing an investment review board and is beginning to define an investment selection process. However, it has not yet established IT investment management policies and procedures to help identify and select projects that will provide mission-focused benefits and maximum risk-adjusted returns. Likewise, SBA has not yet defined processes for investment control and evaluation to ensure that selected IT projects will be developed on time, within budget, and according to requirements and that these projects will generate expected benefits. Regarding investment management practices, SBA has performed only limited reviews of major IT investments and these reviews were ad-hoc since little data have been captured for analyzing benefits and returns on investments.

Without established policies and defined processes for IT investment management practices, SBA cannot ensure that consistent selection criteria are used to compare costs and benefits across project proposals, that projects are monitored and provided with adequate management oversight, or that completed projects are evaluated to determine overall organizational performance improvement. In addition, the agency lacks assurance that the collective results of postimplementation reviews across completed projects will be used to modify and improve investment management based on lessons learned.

To address IT investment management weaknesses, SBA plans to develop and implement an investment selection process that includes screening, scoring, and ranking proposals. It also plans to use its target architecture to guide IT investments. In addition, SBA plans to develop and implement an investment control process to oversee and control projects on a quarterly basis. As part of investment control, SBA plans to collect additional data from all investment projects and compare actual data with estimates in order to assess project performance.

**IT Architecture
Maintenance
Procedures Have Not
Been Established**

An IT architecture is a blueprint—consisting of logical and technical components—to guide the development and evolution of a collection of related systems. At the logical level, the architecture provides a high-level description of an organization's mission, the business functions being performed and the relationships among the functions, the information needed to perform the functions, and the flow of information among functions. At the technical level, the architecture provides the rules and standards needed to ensure that the interrelated systems are built to be interoperable and maintainable.

SBA has made progress with its target IT architecture by describing its core business processes, analyzing information used in the business processes, describing data maintenance and data usage, identifying standards that support information transfer and processing, and establishing guidelines to migrate current applications to the planned environment. However, procedures do not exist for change management to ensure that new system installations and software changes will be compatible with other systems and SBA's planned operating environment.

Without established policies and systematic processes for IT architecture activities, SBA cannot ensure that it will develop and maintain an information architecture that will effectively guide efforts to migrate systems and make them interoperable to meet current and future information processing needs.

To address IT architecture weaknesses, SBA plans to establish a change management process for architecture maintenance to ensure that new system installations and software changes will be compatible with other systems and SBA's planned operating environment. In addition, it plans to incorporate in the target architecture specific security standards for hardware, software, and communications.

**Systems Development
Procedures Are Being
Adopted, Software
Acquisition Guidelines
Are Obsolete, Practices
Are Inconsistent**

To provide the software needed to support mission operations, an organization can develop software using its staff or acquire software products and services through contractors. To effectively manage software development and acquisition processes, the organization needs to establish policies and procedures and assign organizational responsibilities for their implementation. To manage its software projects, the organization should have well-defined software development and acquisition processes, including the methodologies and standards that will be used. Key processes

for software development include requirements management, project planning, project tracking and oversight, quality assurance, and configuration management. Additional key processes needed for software acquisition include acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support.

SBA lacks policies for software development and acquisition to help produce information systems within the cost, budget, and schedule goals set during the investment management process that at the same time comply with the guidance and standards of its IT architecture. SBA's IT guidance and procedures for software acquisition are obsolete and thus rarely used for acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support. An existing systems development methodology is being adopted to replace outdated guidelines that lack key processes for software development. Our review of the selected software projects indicates that SBA's practices are typically ad-hoc for project planning, project tracking and oversight, quality assurance, and configuration management.

Without established policies and defined processes for software development and acquisition, practices will likely be ad-hoc and not adhere to generally accepted standards. Key activities, such as requirements management, planning, configuration management, and quality assurance, will be inconsistently performed or not performed at all when project managers are faced with time constraints or limited funding. These weaknesses can delay delivery of software products and services and lead to cost overruns.

To address software development and acquisition weaknesses, SBA plans to implement formal practices, such as software requirements management and configuration management on a project basis before establishing these practices agencywide. Specifically, SBA has selected the Loan Monitoring System (LMS) project as a starting point for identifying, developing, and implementing a new systems development methodology and associated policies, procedures, and practices. LMS therefore will serve as a model for future systems development projects.

Information Security Procedures Are Still in Draft Form, Periodic Risk Assessments Are Not Performed

Information security policies address the need to protect an organization's computer-supported resources and assets. Such protection ensures the integrity, appropriate confidentiality, and availability of the data and systems of an organization. Integrity ensures that data have not been altered or destroyed in an unauthorized manner. Confidentiality ensures that information is not made available or disclosed to unauthorized individuals or entities. Availability ensures that data will be accessible or usable upon demand by an authorized entity.

Key activities for managing information security include risk assessment, awareness, controls, evaluation, and central management. Risk assessments consist of identifying threats and vulnerabilities to information assets and operational capabilities, ranking risk exposures, and identifying cost-effective controls. Awareness involves promoting knowledge of security risks and educating users about security policies, procedures, and responsibilities. Evaluation involves monitoring effectiveness of controls and awareness activities through periodic evaluations. Central management involves coordinating security activities through a centralized group.

SBA's computer security procedures for systems certification and accreditation are in draft form. With respect to information security activities, SBA has not conducted periodic risk assessments for all mission-critical systems; the agency only recently conducted a risk assessment for one system. Training and education have not been provided to promote security awareness and responsibilities of employees and contractor staff. Further, security management responsibilities are currently fragmented among all of SBA's field and program offices.

Without security policies, SBA faces increased risk that critical information and assets may not be protected from inappropriate use, alteration, or disclosure. Without defined procedures, practices are likely to be inconsistent for such activities as periodic risk assessments, awareness training, implementation of controls, and evaluation of policy compliance and effectiveness of controls.

To address information security weaknesses, SBA has hired additional staff to develop procedures to implement computer security policies and to manage computer accounts and user passwords. These staff are also responsible for performing systems security certification reviews of new

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and existing IT systems. In addition, SBA plans to finish development and testing of a comprehensive disaster recovery and business continuity plan.

Human Capital Policies and Procedures Are Needed, Workforce Strategies and Plans Are Not Yet Developed

The concept of human capital centers on viewing people as assets whose value to an organization can be enhanced through investment. As the value of people increases, so does the performance capacity of the organization and therefore its value to clients and other stakeholders. To maintain and enhance the capabilities of IT staff, the agency should conduct four basic activities: (1) assess the knowledge and skills needed to effectively perform IT operations to support the agency mission and goals; (2) inventory the knowledge and skills of current IT staff to identify gaps in needed capabilities; (3) develop strategies and implementation plans for hiring, training, and professional development to fill the gap between requirements and current staffing; and (4) evaluate progress made in improving IT human capital capability and use the results of these evaluations to continuously improve the organization's human capital strategies.

SBA has not established policies and procedures to identify and address its short- and long-term requirements for IT knowledge and skills. Similarly, SBA has not conducted an agencywide assessment to determine gaps in IT knowledge and skills in order to develop workforce strategies and implementation plans. Further, SBA has not yet evaluated its progress in improving IT human capital capabilities or used data to continuously improve human capital strategies.

Without established policies and procedures for human capital management, SBA lacks assurance that it adequately identifies the IT knowledge and skills needed to support its mission, develops appropriate workforce strategies, and plans to hire and train staff to effectively perform IT operations.

To address IT human capital management weaknesses, SBA plans to conduct a comprehensive assessment of training needs with a special emphasis on the needs of its IT staff. The survey is scheduled for fiscal year 2001 and will be conducted at both headquarters and SBA field offices.

Recommendations

To improve IT management practices, we recommend that the SBA Administrator direct the Chief Information Officer (CIO) to establish

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policies and procedures for managing information technology and define and implement processes for each of the following areas:

In the investment management area, we recommend that the Administrator direct the CIO to adopt policies and procedures and define processes for

- investment selection to ensure that IT projects result in mission-focused benefits and that risk-adjusted return on investment is maximized;
- investment control to determine whether selected projects are being developed on time, within budget, and according to requirements, and to take corrective actions as appropriate; and
- investment evaluation by conducting postimplementation reviews to determine whether completed projects are generating expected mission-focused benefits.

In the IT architecture area, we recommend that the Administrator direct the CIO to

- develop a systematic process for architecture development to ensure that the architecture will meet the agency's current and future information processing needs,
- establish policies and procedures for architecture maintenance to ensure that new systems and software changes are compatible with other systems and SBA's planned operating environment, and
- set a target date for implementation of the maintenance processes.

For software development and acquisition, we recommend that the Administrator direct the CIO to

- complete the systems development methodology and develop a plan to institutionalize and enforce its use agencywide, and
- establish policies, procedures, and processes for software development and software acquisition and develop a mechanism to enforce them. These policies, procedures, and processes need to address areas such as requirements management, project planning, project tracking and oversight, software quality assurance, configuration management, acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support.

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For information security, we recommend that the Administrator direct the CIO to

- conduct periodic security risk assessments to identify and rank threats and vulnerabilities;
- implement a complete, effective security awareness program;
- periodically update policies and procedures on information security and implement security controls to address identified vulnerabilities;
- complete the development and testing of its comprehensive disaster recovery and business continuity plan, which should then be updated and tested periodically;
- conduct periodic security evaluations to determine whether policies, procedures, and controls are effective against identified vulnerabilities and take remedial action as needed; and
- develop and implement a centralized mechanism to monitor and enforce compliance on information security by employees, contractors, and program offices.

In the human capital management area, we recommend that the SBA Administrator direct the CIO to

- identify SBA's IT knowledge and skills requirements,
- perform periodic IT staff assessments to identify current levels of IT knowledge and skills,
- develop workforce strategies and implement plans to acquire and maintain the necessary IT knowledge and skills to support the agency mission, and
- periodically evaluate progress in improving SBA's IT human capital capability and use the results to continuously improve human capital strategies.

Agency Comments and Our Evaluation

In its written comments on a draft of the briefing, SBA agreed with our recommendations and stated that actions are already underway to address many of them. SBA also agreed with our findings but expressed concerns about the presentation of results, some statements in the draft briefing that do not reflect SBA's latest status, and assumptions on the appropriate level of detail in SBA planning documents.

Concerning the presentation of results, SBA requested that we clearly describe our assessment criteria to allow for a fair interpretation of its findings—since many of these criteria include industry standards that had

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emerged only in the last few years. Our briefing slides identify the criteria and standards that we applied in assessing SBA IT management. These standards have sufficient flexibility to make possible the development of key IT processes appropriate for the size and complexity of the IT environment of any organization.

SBA also contended that other small federal agencies would not show compliance much beyond SBA's. We note that SBA is the first federal agency for which we have used indicators to graphically depict our evaluation results. Regardless of where SBA operations may stand relative to similar size federal agencies, comparison with industry standards is a sound approach for identifying activities that can be improved to enhance the capability of supporting the agency's mission and obtaining a positive return on IT investment.

Concerning statements in the draft briefing report that do not reflect SBA's current status and our assumptions on the level of detail in SBA planning documents, we updated appropriate briefing slides to include information recently provided by SBA. Appendix II contains specific revisions made to the briefing report and also provides the full text of SBA's comments and our responses to comments not discussed above.

The SBA Deputy Administrator also provided oral comments on a draft of this letter. He was concerned that our report did not fully reflect SBA's commitment to improve IT management as demonstrated in its recent actions in planning for the loan monitoring system and suggested that we recognize this. We agree that SBA has demonstrated a commitment to improve IT management and, accordingly, we made changes to reflect this comment in this report.

Objective, Scope, and Methodology

As requested, our objective was to evaluate SBA's management of information technology in the areas of investment management, architecture, software development and acquisition, information security, and human capital management. These five key areas encompass major IT functions and are recognized by the IT industry as having substantial influence over the effectiveness of operations. In each IT area, we reviewed SBA's IT policies and procedures and compared them against applicable laws and regulations, federal guidelines, and industry standards. We evaluated SBA's IT management using the Clinger-Cohen Act, Computer Security Act, and guidelines issued by the Chief Information Officer's Council, the Office of Management and Budget, the General Services

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Administration, the National Institute of Standards and Technology, the Software Engineering Institute, the Institute of Electrical and Electronics Engineers, Inc. (IEEE), and ourselves. We also reviewed selected SBA IT projects and activities to determine if practices complied with SBA's policies and procedures and industry standards. The projects selected for review included the Loan Monitoring System, SmartStream, PRO-Net, HubZones, and Subsidy Rate. These selected projects represent a mix of ongoing and completed IT projects of various cost and duration. We also reviewed activities related to current investments.

For each IT area we reviewed, we depicted our evaluation results and judgments on the current state of SBA policies, procedures, and practices by using three broad indicators. SBA is the first federal agency in which we have used these indicators to graphically represent our assessment results. Accordingly, there is no basis for comparing SBA against other agencies using this type of depiction.

We conducted our review at various SBA headquarters offices including the Office of the Chief Information Officer, the Office of Disaster Assistance, the Office of the Chief Financial Officer, the Office of Human Resources, and the Office of Field Operations. We also worked at the Office of Financial Systems in Denver and at the Disaster Office in Sacramento. We conducted our work from August 1999 through April 2000 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this letter. At that time, we will send copies to the Honorable Aida Alvarez, Administrator, Small Business Administration; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested parties. Copies will also be made available to others upon request.

If you have questions on matters discussed in this report, please contact me at (202) 512-6253, or James R. Hamilton, Assistant Director, at (202) 512-6271. We can also be reached at willemssej.aimd@gao.gov and hamiltonj.aimd@gao.gov, respectively. Key contributors to this report were

William G. Barrick, John T. Christian, Mike J. Dolak, Myong S. Kim, Anh Q. Le, Thomas F. Noone, Edward R. Tekeley, and Hai V. Tran.

Sincerely yours,

A handwritten signature in cursive script that reads "Joel Willemssen".

Joel C. Willemssen
Director, Civil Agencies Information Systems

Appendix I

Briefing on Small Business Administration's Management of Information Technology

GAO

Small Business Administration's Management of Information Technology

Briefing for Committee on Small Business
United States Senate
April 7, 2000



GAO

Purpose and Outline

- Briefing purpose is to present results of our review and analysis of the Small Business Administration's (SBA) management of information technology (IT).
 - Briefing outline:
 - Objective
 - Scope & Methodology
 - SBA's IT Profile
 - SBA's IT Policies, Procedures, and Practices
 - Investment Management
 - Architecture
 - Software Development and Acquisition
 - Information Security
 - Human Capital
-

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Objective

Our objective was to evaluate SBA's information technology policies, procedures, and practices in the areas of investment management, architecture, software development and acquisition, information security, and human capital.

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Scope & Methodology

- We reviewed SBA's IT policies and procedures for investment management, architecture, software development and acquisition, information security, and human capital and compared them with applicable laws and regulations, federal guidelines, and industry standards.
 - We reviewed selected IT projects and activities to determine if practices comply with agency's policies and procedures and industry standards. The selected projects represent a mix of ongoing and completed IT projects of various costs and duration. We also reviewed activities related to current investments.
 - We conducted the review at various SBA headquarters offices including the Office of the Chief Information Officer (OCIO), the Office of Disaster Assistance (ODA), the Office of the Chief Financial Officer (OCFO), the Office of Human Resources, and the Office of Field Operations. We also worked at the Office of Financial Systems in Denver and at the Disaster Office in Sacramento. We conducted our work from August 1999 through April 2000, in accordance with generally accepted government auditing standards.
-

GAO IT Profile

Mission and Programs

- SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small business and by helping businesses and families recover from natural disasters.
 - SBA's programs include
 - 7(a) loans for business start-ups and existing small businesses,
 - 8(a) federal contracting set-asides to assist business development of small companies owned and operated by individuals who are determined by SBA to be socially and economically disadvantaged, and
 - disaster assistance loans for disaster victims, both businesses and individuals.
 - SBA's budget request for fiscal year 2000 was about \$995 million, including \$762 million in regular appropriations and \$233 million for contingency/emergency appropriations to support the disaster loan program.
-

GAO IT Profile

IT Environment

- To support the management of its programs, SBA depends on 42 mission-critical systems running on legacy mainframe and minicomputers. Ten of these systems support administrative activities. The remaining 32 support SBA loan activities, including loan accounting and collection, loan origination and disbursement, and loan servicing and debt collection.
 - SBA's self-assessment of its IT environment has shown that legacy application systems are not effectively integrated and thus provide limited information-sharing. The self-assessment also showed that SBA cannot depend on the systems to provide consistent information. Because of these problems, SBA has embarked on an agencywide modernization effort.
-

GAO IT Profile

IT Environment (continued)

SBA's systems modernization initiative consists of three phases:

- Phase 1 consists of the Loan Monitoring System (LMS), which is expected to aid SBA in managing its loan guarantee programs. The system is intended to support loan monitoring and lender oversight.
 - Phase 2 consists of two programs: the Joint Accounting and Administrative Management System, which is intended to modernize SBA's existing financial management, human resource, and procurement systems; and the Credit Management Modernization, which is intended to create a fully integrated paperless process for disaster-relief home loans.
 - Phase 3 consists of SBA's IT programs to modernize systems supporting government contracting, entrepreneurial development, and minority enterprise development.
-

GAO IT Profile

IT Responsibilities and Functions of SBA's CIO

The Chief Information Officer (CIO) is the principal advisor to the Administrator on IT matters and has overall responsibility for development, procurement, management, and monitoring of enterprise-wide IT systems, projects, personnel, and expenditures. The CIO is responsible for ensuring agency compliance with governing laws and regulations and with implementing policies that prescribe the use and management of information technology, such as the Clinger-Cohen Act, the Paperwork Reduction Act, OMB Circular A-130, the Computer Security Act of 1987, and Presidential Decision Directives 63 and 67. The CIO also oversees organizational units for voice and data telecommunications, end user support, and electronic services (Internet and World Wide Web homepage).

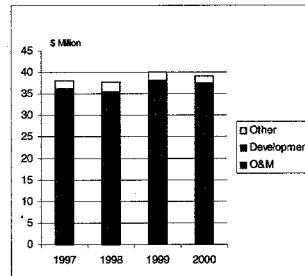
GAO IT Profile

IT Functions of Other SBA Organizations

- ODA is responsible for administering SBA's Disaster Assistance Program through four area offices: Niagara Falls, Atlanta, Ft. Worth, and Sacramento. It operates the Automated Loan Control System at each area office, and is responsible for maintaining the system software and hardware. It is also involved in the development and acquisition of systems.
- OCFO is responsible for overseeing all financial management activities. It operates systems at its Denver Finance Center. These systems perform functions such as: (1) exchanging data with business partners, (2) processing and maintaining disbursement and collection records, and (3) interfacing with the Loan Accounting System. This office is also involved in the development and acquisition of systems.

GAO IT Profile**IT Budgets**

- Total reported IT budgets for OCIO, ODA, and OCFO averaged about \$39 million per fiscal year from 1997 to 2000.¹
- OCIO, ODA, and OCFO data shows that IT costs were primarily for operations and maintenance (O&M) activities and that limited funds were allocated for systems development activities and training.



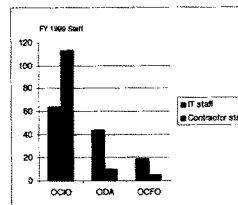
Source: SBA.

¹ SBA does not maintain an agencywide IT budget.

GAO IT Profile

IT Staffing

- In fiscal year 1999, SBA reported having 127 IT staff (64 in OCIO, 44 in ODA, and 19 in OCFO). OCIO staff set IT policies, plan and oversee IT projects, and administer infrastructure systems. IT staff at ODA and OCFO operate and maintain their computer systems and provide IT training to their users.
- SBA also used contractor staff for technical support and day-to-day O&M of IT systems. In fiscal year 1999, SBA used 128 contractor staff in total to support IT activities at OCIO, ODA, and OCFO.



Source: SBA.

GAO

IT Areas Evaluated

To evaluate IT management, we focused on five key areas that encompass major IT functions and are recognized by the industry as having substantial influence over the effectiveness of operations:

- **IT investment management** helps select projects that will best support mission needs, provide an optimum return on investment, and control project development to identify problems and quickly solve them. Investment management has three essential phases--selection, control, and evaluation--that are supported by processes, data, and decisions.
 - **IT information architecture** helps align the requirements for agency-sponsored information systems with the processes that support the agency's mission and goals, achieve interoperability and security of information systems, and promote the application and maintenance of standards by which the agency evaluates and acquires systems. The information architecture has components that delineate the (1) business processes, (2) information flows and relationships, (3) applications, (4) data descriptions and relationships, (5) technology infrastructure, (6) technical reference model, and (7) standards profiles. To implement and maintain the architecture, an agency should have processes for change management and legacy systems integration.
-

GAO

IT Areas Evaluated (continued)

- **Software development and acquisition** activities help produce information systems within the cost, budget, and schedule goals set by the investment management process, while complying with the guidance and standards of the information architecture. Key processes for software development include requirements management, project planning, project tracking and oversight, quality assurance, and configuration management. Additional key processes that are needed for software acquisition are acquisition planning, solicitation, contract tracking and oversight, evaluation, and transition to support.
 - **Information security** helps protect the integrity, confidentiality, and availability of the agency's data and systems it relies on by reducing the risks of tampering, unauthorized intrusions and disclosures, and serious disruptions of operations. Information security activities include conducting risk assessments, promoting awareness, implementing controls, performing evaluations, and providing centralized coordination and oversight of all security activities.
-

GAO

IT Areas Evaluated (continued)

- **IT human capital management** helps provide employees with the appropriate knowledge and skills to effectively execute critical IT functions. Key processes for human capital management involve assessing IT knowledge and skills requirements, inventorying existing staff's knowledge and skills and assessing them against requirements, developing strategies and plans to fill the gap between requirements and existing staffing, and evaluating and reporting on progress in filling the gap in knowledge and skills.
-

GAO IT Policies, Procedures, and Practices

Evaluation Indicators

In evaluating the five key IT areas at SBA, we assessed applicable policies, procedures, and practices. We use three broad indicators to depict our results:



Blank Circle indicates that policies and procedures do not exist or are substantially obsolete or incomplete; and practices for planning, monitoring and evaluation are predominantly ad hoc, or not performed.



Half Circle indicates that policies and procedures are predominantly current and facilitate key functions; and selected key practices for planning, monitoring, and evaluation have been implemented.



Solid Circle indicates that policies and procedures are current and comprehensive for key functions; and practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards.

For each of the areas we reviewed, these indicators provide our judgment on the current state of SBA policies, procedures, and practices. SBA is the first federal agency in which we have used these indicators to represent our assessment of the five key IT areas. Accordingly, there is no basis to judge how SBA is performing in relation to other agencies.

Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices

Evaluation Summary

System Management	Selection process	●	Technical reference model	●	Risk assessments	○
	Selection data	○	Standards profiles	●	Awareness	●
	Selection decisions	○	Change management	○	Controls	●
	Control process	○	Legacy systems integration	●	Evaluation	●
	Control data	○	Requirements management	○	Control management	●
	Control decisions	○	Project planning	●	Requirements	○
	Evaluation process	○	Project tracking & oversight	○	Inventory	●
	Evaluation data	○	Quality assurance	○	Workforce strategies & plans	○
Architecture	Evaluation decisions	○	Configuration management	○	Progress evaluation	○
	Business processes	●	Acquisition planning	○		
	Information flows & relationships	●	Solicitation	○		
	Applications	●	Contract tracking & oversight	○		
	Data descriptions & relationships	●	Product evaluation	○		
System Development & Acquisition	Technical infrastructure	●	Transition to support	○		



Incomplete or obsolete
policies and procedures;
ad-hoc practices



Policies and procedures for key
functions; selected key practices for
planning, monitoring, and evaluation



Comprehensive, current policies and procedures;
practices for planning, monitoring, and evaluation adhere
to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices

IT Investment Management -- Overview

IT investment management is an integrated approach that provides for the continual identification, selection, control, life-cycle management, and evaluation of IT investments. An IT investment management process should have three essential phases--selection, control, and evaluation.

- In the **selection phase**, the organization determines priorities and makes decisions about which projects will be funded during the year. The costs, benefits, and risks of all IT projects are assessed and the projects are compared against each other and ranked.
 - In the **control phase**, all projects are consistently controlled and managed. Progress reviews, in which progress is compared against projected cost, schedule, and expected mission benefits, are conducted at key milestones in each project's life cycle.
 - The **evaluation phase** completes the IT investment management process by comparing actuals against estimates in order to assess performance and identify areas in which future decision-making can be improved.
-

GAO IT Policies, Procedures, and Practices

IT Investment Management -- Overview (continued)

Each phase is supported by




- the **processes** that the organization is using to select, manage, and evaluate its IT investments,
- the **data** (cost, benefit, and risk) that are being used to make IT decisions, and
- the IT **decisions** that are being made using the defined processes and data.

We evaluated IT investment management using the Clinger-Cohen Act, OMB's Capital Programming Guide, and GAO's guide *Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-making*. We reviewed IT investment management practices for the current SBA investment portfolio. This portfolio includes the Loan Monitoring System, Joint Accounting and Administrative System, and Credit Management Modernization.

Our evaluation covered three phases of investment management: selection, control, and evaluation. For each phase, we evaluated investment processes, investment data, and investment decisions.

GAO IT Policies, Procedures, and Practices

IT Investment Management – Evaluation

Investment Selection	Selection process		SBA is beginning to establish a process for screening, analyzing, and selecting IT projects. The Investment Review Board has been established and performed limited project categorization.
Identifying, prioritizing, and selecting projects with the greatest potential for success	Selection data		Project data are inconsistent or missing. Little or no project data analysis performed. Beginning to capture investment data in a database.
Investment Review Board	Selection risk score		Categorization is ad-hoc and not necessarily based on risk-adjusted return on investment. The Investment Review Board was not involved in making final selection decisions.



Incomplete or obsolete policies and procedures; ad-hoc practices







Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation





Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
IT Investment Management – Evaluation (continued)







Control Oversee investments, identify under-performing investments, implement corrective action plans	Control process		No policies and procedures for controlling investments are in place; in addition, no process is yet defined for monitoring IT projects and comparing actual data on costs, benefits, schedules, and risks against original estimates.
	Control data		IT project data was not captured and analyzed to support control of the projects.
	Control decisions		No evidence of control actions or decisions to continue, modify, or terminate IT projects exists. Similarly, no evidence of IT investment portfolio analysis exists.

 Incomplete or obsolete policies and procedures; ad-hoc practices

 Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation

 Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO SBA's IT Policies, Procedures, and Practices
IT Investment Management -- Evaluation (continued)

Evaluation	Evaluation process		No policies and procedures for evaluating investments exist. No post implementation review process is yet defined for assessing investment performance and improving investment management.
Conduct post-implementation reviews and feed lessons learned back to the selection and control processes	Evaluation data		IT project data are not captured and post implementation reviews are not performed to evaluate IT projects.
	Evaluation decisions		No evidence of IT investment evaluation exists to determine if investments are performing as expected. Similarly, there are no decisions to continue, modify, or terminate projects. In addition, there are no decisions to improve the investment process.
 Incomplete or obsolete policies and procedures; ad-hoc practices  Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation  Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards			

GAO IT Policies, Procedures, and Practices

Impact of IT Investment Management Weaknesses

- Without a selection process that screens, analyzes, and prioritizes IT investments, SBA lacks assurance that IT selections will result in mission-focused benefits and that risk-adjusted return on investment is maximized.
 - Without a control process that compares actual cost, benefit, schedule, and risk data with original estimates, SBA lacks assurance that selected projects are being developed on time, within budget, and according to requirements.
 - Without an evaluation process that conducts post-implementation reviews, SBA lacks assurance that completed projects are generating expected mission-focused benefits.
-

GAO IT Investment Management

Suggested Actions

SBA should adopt policies and procedures and define processes for

- investment selection, to ensure that IT projects result in mission-focused benefits and that risk-adjusted return on investment is maximized.
 - investment control, to determine whether selected projects are being developed on time, within budget, and according to requirements, and to take corrective actions as appropriate.
 - investment evaluation by conducting post implementation reviews, to determine whether completed projects are generating expected mission-focused benefits.
-

GAO IT Policies, Procedures, and Practices

Plans to Address IT Investment Management Weaknesses

In March 2000, OCIO officials stated that by the end of fiscal year 2000, SBA plans to

- develop and implement an investment selection process that includes screening, scoring, and selecting projects;
 - develop and implement an investment control process to oversee and control projects on a quarterly basis;
 - collect additional data from all investment projects; and
 - compare actual data with estimates in order to assess project performance.
-

GAO IT Policies, Procedures, and Practices

IT Architecture -- Overview

An IT architecture is a blueprint—consisting of logical and technical components—to guide and constrain the development and evolution of a collection of related systems. At the logical level, the architecture provides a high-level description of an organization's mission, the business functions being performed and the relationships among the functions, the information needed to perform the functions, and the flow of information among functions. At the technical level, the architecture provides the rules and standards needed to ensure that the interrelated systems are built to be interoperable and maintainable.

The Clinger-Cohen Act assigns the CIO the responsibility for developing, implementing, and maintaining the architecture.

In developing the architecture, OMB guidelines specify that it include the following components:

- **Business processes** describe the core business processes that support an agency's missions
-

GAO IT Policies, Procedures, and Practices

IT Architecture -- Overview (continued)

- **Information flows and relationships** analyze information used in business processes and describe relationships among information flows; the flows indicate where the information is needed and how the information is shared to support mission functions
- **Applications** identify, define, and organize activities that capture, manipulate, and manage information to support the organization's mission
- **Data descriptions and relationships** describe how data are maintained, accessed, and used
- **Technology infrastructure** describes the IT resources (e.g., hardware, software, communications networks) and functional capabilities
- **Technical reference model** identifies the information services (e.g., database, communications, security services) used throughout the agency
- **Standards profiles** include (1) the standards that support the information services identified in the technical reference model, (2) the standards that are essential for interoperability, and (3) information security profiles for information assurance

GAO IT Policies, Procedures, and Practices

IT Architecture -- Overview (continued)

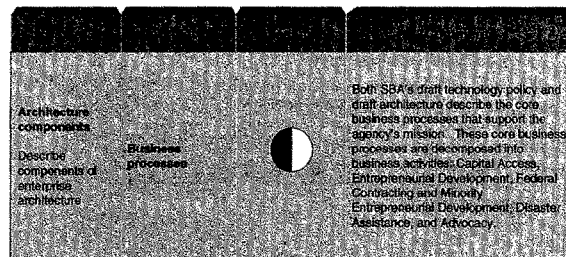
The OMB guidelines specify that the organization should establish two key processes to implement and maintain the architecture:

- **Change management** -- managing and documenting changes to the architecture that are needed as business functions evolve
- **Legacy systems integration** -- developing and implementing a strategy for interfacing existing and new systems that will permit them to interoperate cost-effectively

We evaluated SBA's IT architecture using the Clinger-Cohen Act, OMB's guidance, NIST guidelines, and the CIO Council's Federal Enterprise Architecture Framework. We reviewed SBA's IT architecture practices for the Loan Monitoring System.

Appendix I
Briefing on Small Business Administration's
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GAO IT Policies, Procedures, and Practices
IT Architecture -- Evaluation



Incomplete or obsolete policies and procedures; ad-hoc practices



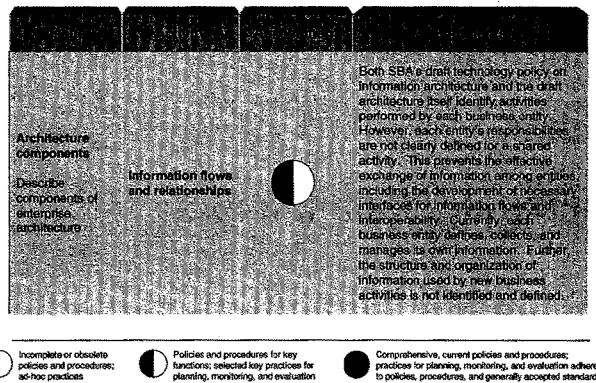
Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation



Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices
IT Architecture -- Evaluation (continued)



Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices
IT Architecture – Evaluation (continued)

Category	Subcategory	Rating	Description
IT Architecture	IT Architecture	1	Both SBA's draft technology policy and draft architecture identify applications that support business activities for capturing and manipulating information.
IT Architecture	IT Architecture	1	SBA's draft technology policy describes data resources and data management. The draft architecture describes how data are maintained, accessed, and used; however, data quality measures, data security rules, and data validation rules have not been defined.



Incomplete or obsolete
policies and procedures;
ad-hoc practices




Policies and procedures for key
functions; selected key practices for
planning, monitoring, and evaluation



Comprehensive, current policies and procedures;
practices for planning, monitoring, and evaluation adhere
to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
IT Architecture – Evaluation (continued)

Architecture components Describe components of enterprise architecture.	Technology infrastructure		Both SBA's draft technology policy and the draft architecture identify technical infrastructure standards that support information transfer and processing. Currently, federal information systems conform to telecommunications standards and network management protocols.



Incomplete or obsolete policies and procedures; ad-hoc practices








Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation





Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
IT Architecture -- Evaluation (continued)

Architecture components	Technical reference model		SBA's draft technology policy stated that SBA adopted the Zachman framework for its architecture development. However, SBA has not clearly defined how the framework will be applied for the development of its architecture. The products that specify the contents of the framework also have not been identified.
Describe components of enterprise architecture	Standards profiles		Both SBA's draft technology policy and the draft architecture identify standards for information exchange, resource sharing, and security services. However, procedures have not been established to ensure compliance.
<p> Incomplete or obsolete policies and procedures; ad-hoc practices</p> <p> Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation</p> <p> Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards</p>			

GAO IT Policies, Procedures, and Practices
IT Architecture – Evaluation (continued)

Maintenance and Implementation Ensure that changes, removals, or installations of new software and hardware are compatible with existing systems and meet architecture requirements	Change management		No procedures exist to ensure that system changes comply with the architecture. Change controls have not been implemented to support maintenance and implementation of the architecture.
	Legacy systems integration		SBA has now developed draft guidelines to migrate current applications to the planned environment.



Incomplete or obsolete policies and procedures; ad hoc practices



Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation



Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices

Impact of IT Architecture Weaknesses

- Without a systematic process for developing an architecture and addressing key architecture components, SBA lacks assurance that the architecture will meet the agency's current and future information processing needs.
 - Without policies and procedures for architecture maintenance, SBA lacks assurance that new systems and software changes will be compatible with other systems and SBA's planned operating environment.
-

GAO IT Architecture

Suggested Actions

- SBA should develop a systematic process for architecture development to ensure that the architecture will meet the agency's current and future information processing needs. It should also set target dates for completion of each component of the architecture.
 - SBA should establish policies and procedures for architecture maintenance to ensure that new systems and software changes are compatible with other systems and SBA's planned operating environment. It should also set target dates for full implementation of the maintenance processes.
-

GAO IT Policies, Procedures, and Practices
Plans to Address IT Architecture Weaknesses

In March 2000, SBA officials stated that they plan to

- incorporate specific security standards for hardware, software, and communications in the target architecture;
 - use the target architecture to guide IT investments; and
 - establish a change management process by the end of this fiscal year.
-

GAO IT Policies, Procedures, and Practices

Software Development and Acquisition -- Overview

To provide the software needed to support mission operations, an organization can develop software using its staff or acquire software through a contractor.

To effectively manage software development and acquisition processes, the organization needs to establish policies and procedures and assign organizational responsibilities for their implementation. To manage its software projects, the organization should have well-defined software development and acquisition processes, including the methodologies and standards that will be used.

GAO IT Policies, Procedures, and Practices
Software Development and Acquisition – Overview
(continued)

Key processes for software development include the following:

- **Requirements management** establishes and documents common understandings between the customer and the software project of the customer's requirements to be addressed.
 - **Project planning** identifies and organizes the work elements for performing the software engineering and managing the project.
 - **Project tracking and oversight** measures and controls the performance, cost, and schedule objectives of the project throughout its life. It provides visibility into actual progress so that management can act effectively when the software project's performance deviates significantly from plans.
 - **Software quality assurance** determines if the process being used by the project and the resulting products comply with the organization's policies and procedures.
 - **Configuration management** establishes and maintains the integrity of the products throughout the project's software life cycle, through a structured process for documenting proposed and approved changes in requirements and plans.
-

GAO IT Policies, Procedures, and Practices
Software Development and Acquisition – Overview
(continued)

Additional key process areas needed for software acquisition include the following:



- **Acquisition planning** identifies and organizes the work elements for the contractor to perform the software engineering and the organization's support and oversight of the contractor.
 - **Solicitation** details the solicitation and selection of contractors qualified to satisfy the contract's requirements for the project's software-related products and services. The solicitation package includes the contractual software requirements, proposal evaluation criteria, and product-acceptance criteria.
 - **Contract tracking and oversight** ensures that the contractor's software engineering is managed and complies with contract requirements and adheres to relevant laws, policies, regulations, and other guidance.
 - **Product evaluation** evaluates contractor products against technical requirements throughout the total period of the acquisition to provide an integrated approach that takes advantage of all evaluation results.
 - **Transition to support** ensures that the software support organization has the capacity and capability to provide the required support upon assumption of responsibility for the support of the software products.
-


GAO SBA's IT Policies, Procedures, and Practices
Software Development and Acquisition -- Overview
(continued)


We evaluated SBA's policies and procedures on software development and acquisition using GSA's *Guide to Planning, Acquiring, and Managing IT Systems*, and standards issued by the Software Engineering Institute (SEI) and the Institute of Electrical and Electronics Engineers, Inc. We reviewed selected projects to confirm the agency's declaration of software processes in use, but did not perform an SEI Capability Maturity Model study. We reviewed SBA's IT practices by performing case studies on four selected projects: SmartStream, PRO-Net, Subsidy Rate, and HubZones.


GAO IT Policies, Procedures, and Practices

Software Development and Acquisition -- Evaluation

Issue	Activity	Assessment	Comments
Software development Apply best practices to achieve key objectives: (1) within budget, (2) on schedule, and (3) according to requirements	Requirements management		There are no policies and procedures for requirements management, and processes and guidance are not yet defined. SBA has begun to formalize this capability for two recent projects.
	Project planning		SBA has a draft systems development methodology that provides project planning guidance. SBA has begun to formalize practices for a major modernization project. However, project plans do not consistently contain personnel assignments, cost estimates, and milestones.



 Incomplete or obsolete policies and procedures; ad hoc practices

 Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation

 Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices
Software Development and Acquisition -- Evaluation
(continued)

Issue	Activity	Assessment	Comments
Software development Apply best practices to achieve key objectives: (1) within budget, (2) on schedule, and (3) according to requirements	Project tracking and oversight		SBA has a draft systems development methodology that provides guidance for project tracking and oversight. However, ad hoc methods (manual and software tools) are used to record project data. Project managers also do not perform periodic comparisons between projected and actual results.
	Quality assurance		SBA has a draft systems development methodology that provides guidance for quality assurance. However, quality assurance practices are not being performed on any software projects.



Incomplete or obsolete policies and procedures; ad-hoc practices

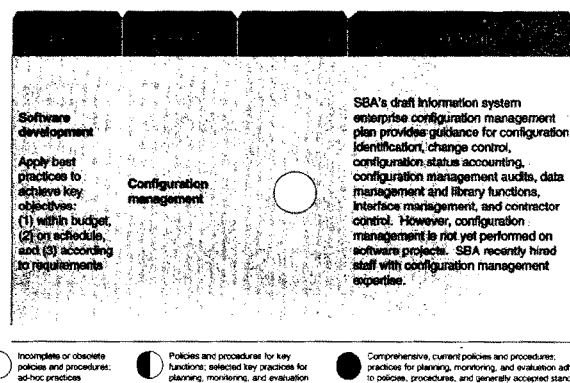


Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation





Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards


GAO IT Policies, Procedures, and Practices
Software Development and Acquisition – Evaluation
(continued)





Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices
Software Development and Acquisition -- Evaluation
(continued)

Issue	Category	Rating	Findings
Software acquisition	Acquisition planning		SBA's 1984 guidance for acquisition planning does not conform to generally accepted standards. Acquisition planning is not consistent among software projects.
Apply best practices to achieve key objectives: (1) within budget (2) on schedule, and (3) according to requirements	Solicitation		SBA's 1984 guidance for solicitation does not conform to generally accepted standards. SBA maintains a database of contracting opportunities for small companies. Contracts do not consistently include acceptance criteria.






 Incomplete or obsolete policies and procedures; ad-hoc practices

 Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation


 Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices
Software Development and Acquisition -- Evaluation
(continued)

Software acquisition	Contract tracking and oversight		SBA's 1994 guidance for contract tracking and oversight does not conform to generally accepted standards.
Apply best practices to achieve key objectives: (1) within budget, (2) on schedule, and (3) according to requirements.	Product evaluation		SBA's 1994 guidance for product evaluation does not conform to generally accepted standards. SBA does not consistently establish criteria prior to evaluating software products against requirements.
 Incomplete or obsolete policies and procedures; ad-hoc practices  Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation  Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards			

GAO IT Policies, Procedures, and Practices
Software Development and Acquisition – Evaluation
(continued)

Issue	Activity	Assessment	Comments
SOFTWARE ACQUISITION Apply best practices to achieve key objectives: (1) within budget; (2) on schedule; and (3) according to requirements.	Transition to support		There are no policies for transition to support, and no process has yet been defined. Transitioned systems did not always include a completed inventory of software programs and related products. Practices are inconsistent for Web-based software.



Incomplete or obsolete policies and procedures; ad-hoc practices



Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation



Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
Impact of Software Development and Acquisition
Weaknesses

- Without adequate processes for software development, SBA lacks assurance that project plans, including documentation, configuration management, and quality assurance, will be developed and followed; and that software will meet user needs.
 - Without adequate processes for software acquisition, SBA lacks assurance that acquisition plans will be developed, contractual requirements specified, and that acquired products will meet user needs.
-

GAO Software Development and Acquisition

Suggested Actions

- SBA should complete the systems development methodology and develop a plan to institutionalize and enforce its use agencywide.
 - SBA should establish policies, procedures, and processes for software development and software acquisition, and develop a mechanism to enforce them. These policies, procedures and processes need to address areas such as
 - requirements management,
 - project planning,
 - project tracking and oversight,
 - software quality assurance,
 - configuration management,
 - acquisition planning,
 - solicitation,
 - contract tracking and oversight,
 - product evaluation, and
 - transition to support.
-

**GAO IT Policies, Procedures, and Practices
Plans to Address Software Development and Acquisition
Weaknesses**

- OCIO is tailoring a systems development methodology (developed by another agency) for its use.
 - OCIO officials stated that requirements management practices will be initially implemented on a project basis before establishing these practices agencywide.
 - OCIO officials stated that SBA plans to establish a group for product evaluation for the LMS activities.
 - SBA is working on a configuration management plan. This plan discusses the need for uniform policies and guidance for the configuration management discipline on large software projects such as the LMS.
-

GAO IT Policies, Procedures, and Practices

Information Security -- Overview

Information security protects an organization's computer-supported resources and assets. Such protection ensures the integrity, appropriate confidentiality, and availability of the data and systems of an organization. Integrity ensures that data have not been altered or destroyed in an unauthorized manner. Confidentiality ensures that information is not made available or disclosed to unauthorized individuals, entities, or processes. Availability ensures that data will be accessible or usable upon demand by an authorized entity.

Key activities for managing information security risks include:

- **Risk assessment** -- identifying security threats and vulnerabilities to information assets and operational capabilities, ranking risk exposures, and identifying cost-effective controls.
 - **Awareness** -- promoting awareness concerning security risks and educating users about security policies and procedures.
 - **Controls** -- implementing controls necessary to deal with identified risks.
-

GAO IT Policies, Procedures, and Practices


Information Security -- Overview (continued)

- **Evaluation** -- monitoring effectiveness of controls and awareness activities through periodic evaluations.
- **Central management** -- coordinating security activities through a centralized group.

We evaluated SBA's policies and procedures on information security using the Clinger-Cohen Act, Computer Security Act, and guidelines issued by OMB, GAO, and NIST. We reviewed SBA's IT practices on two selected systems: Automated Loan Control System and Wide Area Network. We also reviewed Office of Inspector General reports on information security.

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GAO IT Policies, Procedures, and Practices
Information Security -- Evaluation

Issue	Activity	Assessment	Comments
Risk assessment Assess security threats and vulnerabilities and determine security needs	Risk assessments		There are no policies and procedures to deal with risk assessments. Also, no process is yet defined for conducting risk assessments and detecting systems security deficiencies. Security risks have not been periodically assessed. SBA recently conducted an analysis to determine annual workload requirements for security reviews such as risk analyses, vulnerability assessments, and certifications of key applications, its wide area network, mainframe facility, and local area networks.



Incomplete or obsolete policies and procedures; ad-hoc practices




Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation



Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices
Information Security -- Evaluation (continued)

Topic	Activity	Assessment	Comments
Risk management Educate users and others on risks and related policies	Awareness		SBA's draft security policies indicate that an awareness program must be implemented to ensure that all individuals involved with the operations, maintenance, or use of computer systems and sensitive software applications are aware of information security policies and procedures. A notice for display on computer screens has recently been implemented to remind employees and contractors of their basic information security responsibilities. However, security awareness training and education have not been provided.



Incomplete or obsolete policies and procedures; ad-hoc practices

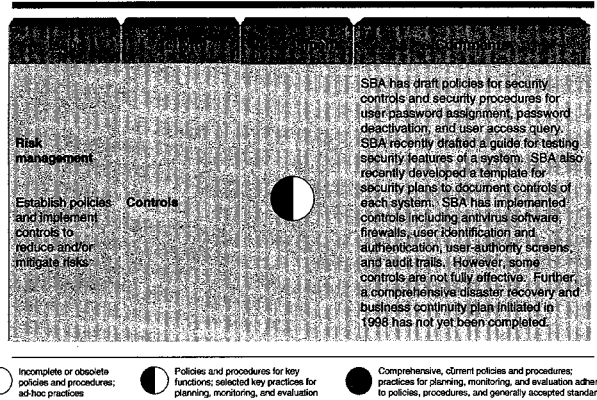


Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation





Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
Information Security – Evaluation (continued)



GAO IT Policies, Procedures, and Practices
Information Security – Evaluation (continued)

			Comments
Risk management	Evaluation		SBA recently developed a process for performing system security certification and accreditation. In addition, SBA has performed informal network testing, reported loss transactions, and monitored internet activities. However, analysis and documentation of those activities is lacking.
Test and evaluate effectiveness of policies and controls	Central management		SBA's draft security policies and procedures define responsibilities for central management. However, security responsibilities are currently fragmented among all of SBA's field and program offices without centralized oversight.



Incomplete or obsolete policies and procedures; ad-hoc practices



Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation



Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
Impact of Information Security Weaknesses

- Without conducting periodic risk assessments, SBA will not adequately identify vulnerabilities to implement needed controls.
 - Without a complete awareness program, SBA lacks assurance that staff will adhere to established policies.
 - Without policies and procedures, SBA lacks assurance that security controls are being consistently applied to address identified vulnerabilities.
 - Without periodic security evaluations, SBA lacks assurance that established policies, procedures, and controls are effective against identified vulnerabilities.
 - Without institutionalized central oversight and coordination, SBA lacks assurance that identified weaknesses are being addressed on an ongoing basis.
-

GAO Information Security

Suggested Actions

- SBA should conduct periodic security risk assessments to identify and rank threats and vulnerabilities.
 - SBA should implement a complete, effective security awareness program.
 - SBA should periodically update policies and procedures on information security and implement security controls to address identified vulnerabilities. This should include completing the development and testing of its comprehensive disaster recovery and business continuity plan. The plan should then be updated and tested periodically.
 - SBA should conduct periodic security evaluations to determine whether policies, procedures, and controls are effective against identified vulnerabilities, and take remedial action, as needed.
 - SBA should develop and implement a centralized mechanism to monitor and enforce compliance on information security by employees, contractors, and program offices.
-

GAO IT Policies, Procedures, and Practices

Plans to Address Information Security Weaknesses

- OCIO officials stated that SBA plans to finish development and testing of a comprehensive disaster recovery and business continuity plan.
- OCIO has hired additional staff to address security weaknesses identified by SBA's Inspector General. These staff are responsible for
 - performing security certification reviews of new and existing IT systems,
 - administering user identification and passwords,
 - developing and maintaining security policies, procedures, guidance, and training.
- SBA recently established a committee charged with developing solutions to resolving security weaknesses identified by the agency's Office of Inspector General as part of the financial statement audit.

GAO IT Policies, Procedures, and Practices

IT Human Capital -- Overview

Human capital centers on viewing people as assets whose value to an organization can be enhanced through investment. As the value of people increases, so does the performance capacity of the organization, and therefore its value to clients and other stakeholders.

To maintain and enhance the capabilities of IT staff, the organization should conduct four basic activities:

- assess the knowledge and skills needed to effectively perform IT operations to support agency mission and goals;
 - inventory knowledge and skills of current IT staff to identify gaps in needed capabilities;
 - develop strategies and implement plans for hiring, training, and professional development to fill the gap between requirements and current staffing; and
 - evaluate progress made in improving IT human capital capability, and use the results of these evaluations to continuously improve the organization's human capital strategies.
-



GAO IT Policies, Procedures, and Practices

IT Human Capital -- Overview

We evaluated SBA's policies and procedures on IT human capital using the Clinger-Cohen Act and our guide *Human Capital: A Self-Assessment Checklist for Agency Leaders*. We reviewed IT human capital practices on two selected projects: Loan Monitoring System and SmartStream.

Appendix I
Briefing on Small Business Administration's
Management of Information Technology

GAO IT Policies, Procedures, and Practices
IT Human Capital – Evaluation

Issue	Activity	Assessment	Comments
Needs assessment	Assessment of needed IT knowledge and skills		There are no policies and procedures to identify requirements of IT knowledge and skills. In addition, SBA has not conducted an assessment to determine short- and long-term requirements of IT knowledge and skills.
Assess needed and current IT knowledge and skills	Inventory knowledge and skills of current IT staff		OCIO is planning to develop procedures for conducting an assessment. This office maintains a skills inventory of its headquarters staff.



Incomplete or obsolete policies and procedures; ad-hoc practices





Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation



Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
IT Human Capital -- Evaluation (continued)

Issue	Activity	Assessment	Comments
WORKFORCE ENHANCEMENT Develop workforce strategies and plans and evaluate progress.	Workforce strategies and plans		There are no policies and procedures for addressing gaps in IT knowledge and skills. And, the gaps have not been identified to support the development of workforce strategies and plans for recruiting, hiring, compensating, and training.
	Progress evaluation		There are no policies and procedures for evaluating progress in addressing gaps in knowledge and skills. SBA has not evaluated progress in improving IT human capital capabilities or used evaluation data to continuously improve human capital strategies.



Incomplete or obsolete policies and procedures; ad-hoc practices



Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation



Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

GAO IT Policies, Procedures, and Practices
Impact of IT Human Capital Weaknesses

Without periodic IT staff needs assessment and workforce enhancement activities, SBA lacks assurance that it will effectively

- identify needed IT knowledge and skills,
 - understand its current skill level,
 - develop workforce strategies and implement plans to maintain the necessary IT knowledge and skills to support the agency mission, and
 - evaluate and report on progress in addressing knowledge and skill gaps.
-

GAO IT Human Capital

Suggested Actions

- SBA should identify its IT knowledge and skills requirements.
 - SBA should perform periodic IT staff assessments to identify current levels of IT knowledge and skills.
 - Based on the results of these assessments, SBA should develop workforce strategies and implement plans to acquire and maintain the necessary IT knowledge and skills to support the agency mission.
 - SBA should periodically evaluate its progress in improving its IT human capital capability and use the results to continuously improve its human capital strategies.
-

GAO IT Policies, Procedures, and Practices
Plans to Address IT Human Capital Weaknesses

In March 2000, OCIO officials stated that SBA plans to

- assess the skills and knowledge levels of IT staff;
 - conduct a survey of IT staff to identify tools and training needed to effectively perform their assigned duties; and
 - take a leadership role in developing policies and procedures for recruiting, hiring, and compensating IT staff.
-

GAO**Agency Comments**

- In commenting on a draft of this briefing, SBA said that it agrees with the recommendations and actions are underway to address them.
 - SBA questioned the accuracy of statements made concerning 12 IT management activities. In cases where SBA provided supporting documentation, we made appropriate revisions.
 - SBA also questioned the fairness of the assessment of its operations against industry standards because many of these standards have emerged in the last few years. SBA contended that other small federal agencies would not fair much better in meeting industry standards.
 - It should be noted that the industry standards have sufficient flexibility that key IT processes can be developed that are appropriate for the size and complexity of the IT environment of each organization. Although SBA's operations may or may not compare favorably with other small federal agencies, comparison with industry standards or best practices is a sound approach for identifying activities that can be improved to enhance the capability of supporting the agency's mission and obtaining a positive return on the IT investment.
-

Appendix II

Comments From the Small Business Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20546

April 4, 2000

OFFICE OF THE ADMINISTRATOR

Mr. Joel C. Willemssen
Director, Civil Agencies Information Systems
Accounting and Information Management Division
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Willemssen:

This is the Small Business Administration's (SBA) response to the General Accounting Office (GAO) draft report, "Small Business Administration's Management of Information Technology."

We appreciate the time and attention that GAO has spent reviewing information technology (IT) at the SBA, however, the SBA has some concerns about the presentation of results, inaccuracies, and assumptions concerning the appropriate level of detail in SBA planning documents, specifically the architecture and investment process. We believe many of the recommendations which the GAO would like the SBA to initiate are already underway and are being addressed as part of SBA's continuing efforts to manage agency-wide IT resources including implementation of the Clinger-Cohen Act.

For the past 3 years SBA has been in a transition as we implement a WEB-centric technology environment to replace aging mainframe-based information systems and stove pipe databases. Many of the policies and procedures to support new systems and methodologies are still in draft form or not yet developed. SBA has selected its Loan Monitoring System (LMS) Project - commended by GAO for addressing many of the issues identified in this report - as the starting point for identifying, developing, and implementing a new system development methodology and associated policies, practices, and procedures. We believe that the LMS project will be an exemplary model for future system development projects at the SBA. SBA has made great progress in updating its standards and procedures for system development and technology planning.

GAO staff acknowledge that this is their first review of an agency using this kind of benchmark and their first report of an agency in this format. The IT environment in the Federal Government is changing very rapidly as a result of technology innovation, new legislation such as Clinger-Cohen, and new Administration standards. It is highly unlikely that other small Federal entities will show compliance much beyond SBA's, given the rapidly changing IT environment. However, GAO's assessment can be effectively used to guide future performance.



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Comments From the Small Business
Administration

Mr. Joel Willenmann

Page 2

In addition, IT management standards, such as those published by the Software Engineering Institute (SEI) and the Institute of Electronics and Electrical Engineers (IEEE), have emerged only in the last few years. The SBA has committed itself to becoming certified at Level 2 of the SEI Capability Maturity Model for Organizations, but it will take a significant investment in time, budget, and training over 2 to 3 years to qualify at even this level. Hence, while GAO has attempted to assess SBA's operations in light of these and similar standards, it is not reasonable to assume that the Agency's failure to adhere to new standards is problematic in comparison to other Federal entities.

For these reasons I recommend that GAO describe its effort from this perspective, and that it clearly and prominently describe its work and the appropriate use of the work at the beginning of the report in an effort to guide a more fair interpretation of its findings.

Enclosure 1 contains SBA comments on inaccuracies contained in the draft report. Enclosure 2 contains responses to the GAO recommendations. Enclosure 3 displays SBA's assessment of its status based on our comments in Enclosures 1 and 2.

The GAO has provided much constructive guidance to the SBA over the last several years. The most recent report will be useful guidance as well. SBA is fully committed to meeting the requirements of the Clinger-Cohen Act, and to maximizing the return on the SBA's Information Technology (IT) and related resource investments. If you have any questions, please contact Lawrence E. Barrett, Chief Information Officer, at 202-205-6706.

We are looking forward to working with you to improve IT at the SBA.

Sincerely,


Kristine Marcy
Chief Operating Officer

Enclosures

Appendix II
Comments From the Small Business
Administration

Response by
The Small Business Administration

Draft Audit Report
Small Business Administration's Management of Information Technology

INACCURACIES

IT Investment Process

IT Architecture

See comment 1.

See comments 2 and 4.

1. *Page 18, Business Processes.* The GAO report states that "SBA has not yet provided a completion date for the architecture." This is not correct. In a GAO-SBA meeting to discuss the original draft report, SBA stated that the architecture was complete and queued for production in the print shop. Since that time, SBA halted the printing to allow revision to Section 3.5 Security in response to GAO recommendations for the Loan Monitoring System. Those changes have been finalized and the architecture is again in the print shop for production by April 6.

2. *Page 29, Information Flows and Relationships.* The GAO report states that "the structure and organization of information used by each of these business activities are not identified and defined." SBA developed an information architecture in 1995 which lists the entities and individual data elements used and collected by each of the SBA business activities. A copy of this document was provided to GAO. The 1995 document with the draft ITA (described above) provides detailed information at the data element level.

SBA also indicated to GAO that SBA, like many other Federal agencies, developed its architecture at a high level. SBA reviewed the published architectures of other agencies at the beginning of its project and selected a level of detail that was (1) in line with other agency architectures, (2) affordable, (3) in more detail than many of the other agency architectures, and (4) recommended by its contractor, EDS Corporation. SBA has not seen any Federal agency architecture at the level of detail that the GAO comments suggest are required.

Also, the GAO report does not reflect the quality and completeness of the architecture. Several times during the audit period, GAO staff complimented SBA on its architecture. While SBA understands and agrees with GAO that more detail is always better, SBA completed the architecture at the level of detail appropriate for SBA at the time.

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Comments From the Small Business
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See comment 3.

3. **Page 30, Applications.** The GAO report states that "the draft architecture does not provide a consolidated inventory of applications." This is not correct. Section 4 of the architecture lists applications in a table. The original draft given to GAO did not contain this table. Following the GAO-SBA meeting to discuss the original draft report, SBA provided Section 4 of the architecture to GAO on March 20, 2000.

See comment 4.

4. **Page 30, Data Descriptions and Relationships.** The GAO report states that "data quality measures, data security rules, and data validation rules have not been defined." As described in Item #2, above, SBA reviewed the published architectures of other agencies at the beginning of its project and selected a level of detail that was (1) in line with other agency architectures, (2) affordable, (3) in more detail than many of the other agency architectures, and (4) recommended by its contractor, EDS Corporation. SBA has not seen any Federal agency architecture at the level of detail that the GAO comments suggest are required.

See comment 5.

5. **Page 31, Technology Architecture.** The GAO report states that "Currently, not all information systems conform to telecommunications standards and network management protocols." It is correct that not all equipment and systems within the SBA comply with the target architecture. The non-compliance is identified in the "As Is" architecture, identified as a gap in the "target" architecture, and is listed as a priority recommendation for implementation in the "ITA Gap Analysis and Migration Plan". However, this should not be a criticism of the architecture policy and document. In the past SBA has standardized desktop equipment and software and only rarely witnessed deviation from Agency standards. The Office of Disaster Assistance with its unique requirements for portability and instantaneous operations at disaster sites has been the exception. In addition, SBA OCIO stated policy has been to allow non-standard equipment to co-exist until replacement is required. This policy has allowed SBA to stretch a "thin" technology refresh program. SBA has been successful with this approach to managing equipment and software upgrades under constrained budgets. Please note, however, that as part of the Agency's FY 2001 Budget Request there is a request for \$7 million for seat management and infrastructure. If approved, for the first time the Agency will have the resources to properly manage its IT hardware.

SBA is committed to all systems conforming to standards and protocols. The CIO reviews all statements of work (SOW) which involve technology and systems to ensure that deliverables will conform to SBA's target architecture. Following the GAO-SBA meeting to discuss the original draft report, SBA provided a SOW for the Office of Disaster Assistance that requires its contractor, Data Networks Corporation, to address non-compliance and to ensure that a new system will comply with the architecture.

In addition, the GAO report states that "SBA has not defined a physical data model for the implementation of SBA's technical infrastructure." As stated earlier, SBA has not seen any Federal agency architecture at the level of detail that the GAO

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See comments 4 and 6.

See comment 7.

See comment 8.

See comment 9.

comments suggest are required. On page 15 of the draft report, it is noted that SBA is the first Federal agency in which GAO has used broad indicators to represent their assessment. What is not noted is that this is the first assessment of its kind performed by GAO. Until further assessments are conducted, the GAO assessment is based on a "text book" or "best of the best" idea of what SBA should have done.

6. **Page 32, Technical Reference Model.** The GAO report states that "SBA has not clearly defined how the framework will be applied for the development of its architecture. The products that specify the contents of the framework also have not been identified." SBA takes exception to this type of criticism. SBA used the Zachman framework, recommended by the Office of Management and Budget. GAO apparently did not find that SBA applied the framework incorrectly, or that would have been included in the report. At least, GAO made no such reference in its report. Therefore, it is unclear to what GAO's reference alludes. SBA has not seen any Federal agency architecture at the level of detail that the GAO comments suggest are required.

7. **Page 33, Legacy Systems Integration.** The GAO report states that "SBA is also working to develop a list of legacy systems for migration to the target architecture." This is not correct. SBA has had this list since the early days of the audit, but the contractor did not include it in the early draft of the architecture. SBA provided the GAO with the updated Section 4 of the architecture - which contains the list - after the SBA-GAO meeting to discuss the early draft of the report.

SOFTWARE DEVELOPMENT & ACQUISITION

1. **Page 46, Requirements Management.** The GAO report states that "there are no policies and procedures for requirements management. Also, processes and guidance are not yet defined." SBA has developed procedures for requirements management. SBA is using IEEE guidance for requirements documentation. As stated earlier, SBA is using the Loan Monitoring System to develop and establish guidance for software development and acquisition. So far, SBA has a system development methodology (SDM) including an appendix on configuration management, a configuration management plan and procedures for LMS, and a quality assurance plan for LMS. Other projects are expected to follow the SDM and to use the LMS guidance as templates. All current major projects are following this policy.

While SBA is still in the initial stages of implementing the guidance, formal procedures and guidance do exist and are being followed. However, the GAO report fails to recognize both the policies that SBA has and the extent of SBA progress in implementing. GAO assigns an empty circle as an indicator of its assessment. This is inconsistent with the definition of the indicators.

2. **Page 46, Project Planning.** As stated earlier, SBA is using the Loan Monitoring System to develop and establish guidance for software development and acquisition.

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See comment 10.

Other projects are expected to follow the SDM and to use the LMS guidance as templates. All current major projects are following this policy.

3. *Page 41, Project Tracking and Oversight.* The GAO report states that "Project managers also do not perform periodic comparisons between projected and actual results." The GAO comments imply that project managers are not tracking progress. This is incorrect; GAO auditors did not see structured formal documentation of project progress marked against formally adopted schedules. SBA project managers use Project 98 to establish schedules and milestones and to track progress. However, on the projects audited by GAO, the schedules were tracked informally by the project leaders without documentation.

See comment 11.

4. *Page 42, Configuration Management.* The GAO report states that "configuration management is not yet performed on software projects." This is incorrect. SBA is performing configuration management for the LMS system as well as instructing other projects' members in their responsibilities. Configuration management guidance is also included in SOWs for the LMS project.

Also the original draft of the report gave SBA a half circle for Configuration Management. The current version of the report gives SBA an empty circle.

IT HUMAN CAPITAL

See comment 12.

1. *Page 60, Needs Assessment.* The GAO report states that "SBA has not conducted an assessment to determine short- and long-term requirements." This is incorrect. In the training needs assessment conducted by the Office of Human Resources in late FY 1998, offices (including OCIO) identified their IT training requirements for FY 1999. Many of these training requirements were addressed through the "LearnIt Online" program, and others, such as Program Management, were addressed in formal classroom training. Others are slated to be addressed in future LearnIt Online courses. OCIO is currently planning a comprehensive assessment of training needs that is focused on the IT field, with special emphasis on the needs of the IT staff, both in Headquarters and SBA field offices; the survey is programmed for FY 2001.

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Response by
The Small Business Administration

Draft Audit Report
Small Business Administration's Management of Information Technology

RECOMMENDATIONS

IT INVESTMENT MANAGEMENT

We agree that SBA does not have a fully documented set of procedures covering the entire regimen of IT investment processes. The weaknesses GAO identified in this part of its assessment are helpful and not entirely surprising. During much of FY 1998 and 1999, the Agency's information technology resources were largely directed toward a successful Year 2000 migration, which was achieved. This mandatory allocation of resources, while clearly necessary, reduced SBA's internal investments in other areas including the development of formal IT capital planning procedures.

But the Agency is cognizant of its responsibilities in this area and has never neglected them. During the last budget year, the Agency required managers to identify all proposed major IT investments during the budget formulation period. SBA has treated its largest and most significant IT investment, the System's Modernization Initiative (SMI), as a model of how IT capital planning and implementation should be conducted within the Agency. All SMI projects are fully documented in accordance with the newly developed System Development Methodology, acquisition planning is performed for each, and full documentation is provided to the Investment Council and entered into ITIPS.

The Agency has also been moving aggressively to better manage its overall IT investment portfolio, and we are committed to continuing that process:

- SBA's Business Technology Investment Council (BTIC) is taking an increasingly active role in reviewing current (FY 2000) IT investment performance. The BTIC is comprised of the Deputy Administrator, the Chief Operating Officer, the Chief Information Officer, the Chief Financial Officer, representative district directors from the field organization, and the Associate Deputy Administrators for Capital Access, Entrepreneurial Development, Management and Administration, and Government Contracting / Minority Enterprise Development. The Council has met three times since mid-January to collect project control information on its active investments, and to ensure that any new projects are authorized only through an initial planning phase intended to document expected investment performance and key project milestones. The BTIC reviewed all projects in light of the Systems Modernization Initiative (SMI). It also prioritized the efforts within the SMI in Phases I, II, and III. The Council's review has caused one project to be suspended and others delayed, and new guidance is being developed to collect better operations and maintenance cost information for selected projects.

GAO/AIMD-00-170 SBA IT Management

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- SBA realizes the value of an integrated IT capital planning tool to assist managers and the BTIC in collecting uniform select-control-evaluate information for major IT projects. The Agency has had some experience with the Information Technology Investment Portfolio System (ITIPS), which is used by a number of Federal agencies. The Agency will purchase and install the latest version of ITIPS (3.0) when testing and acceptance on that product are complete.
- To close the gap between its intentions and its practices, SBA will secure expert services to develop a comprehensive set of IT capital planning processes tailored to our organization. The procedures will cover the range of "select-control-evaluate" requirements and will be designed to support the Agency's related planning and budget processes, including post implementation reviews. The procedures will be designed to employ ITIPS and the services package will include management-level training in IT capital planning principles for SBA program managers.

IT INFORMATION ARCHITECTURE

1. SBA should develop a systematic process for architecture development to ensure that the architecture will meet the agency's current and future information processing needs. It should also set target dates for completion of each component of the architecture.

Response: Agree.

2. SBA should establish policies and procedures for architecture maintenance to ensure that new systems and software changes are compatible with other systems and SBA's planned operating environment. It should also set target dates for full implementation of the maintenance processes.

Response: Agree – The SBA ITA is a controlled item under the purview of the SBA Configuration Control Board, within the controls established by the Configuration Management Plan.

SOFTWARE DEVELOPMENT & ACQUISITION

1. SBA should complete the systems development methodology and develop a plan to institutionalize and enforce its use agency-wide.

Response: Agree – SBA is already working on finalizing the SDM. SBA's Inspector General has audited the SDM, found it to meet current standards, and requested only minor changes.

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2. SBA should establish policies, procedures, and processes for software development and software acquisition and develop a mechanism to enforce them. These policies, procedures, and processes need to address areas such as: requirements management, acquisition planning, project tracking and oversight, software quality assurance configuration management, acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support.

Response: Agree. SBA has a solid SDM. SBA has started requirements management, acquisition planning, quality assurance, configuration management, and product evaluation with the LMS Project. SBA intends to strengthen its systems development and acquisition capabilities and will investigate implementing a formal improvement process.

INFORMATION SECURITY

SBA has been actively working to improve its IT security program. The 1999 Areas for Improvement in Computer Controls Fiscal Year 1999 Financial Statement Audit (FISCAM) reports "Although weaknesses continue to exist, we commend the agency for the substantial progress it has made toward implementing an agency-wide information systems security program." SBA will continue its program of improvement during the coming months.

1. SBA should conduct periodic risk assessments to identify and rank threats and vulnerabilities

Response: Agree - SBA has hired additional staff and contractors to perform periodic risk assessments, system certification reviews of new and existing system, and other analyses as part of its security program enhancement. Certification and accreditation reviews have been initiated.

2. SBA should implement a complete, effective security awareness program.

Response: Agree - Immediate initiatives include implementation of an INTRANET-based security awareness training course for SBA personnel. The training course is based upon NIST guidelines for security awareness training and will track employee progress through the courses. We have also developed documentation to support the SBA's security infrastructure.

3. SBA should periodically update policies and procedures on information security and implement security controls to address identified weaknesses. This should include completing the development and testing of its comprehensive disaster recovery and business continuity plan. The plan should then be updated and tested periodically.

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Response: Agree - The revised IT Security Standard Operating Procedure (SOP 90 47 1) is in final clearance prior to its publication. SBA plans to update the policy as necessary. SBA will complete the comprehensive disaster recovery/business continuity plan and will exercise the plan annually.

4. SBA should conduct periodic security evaluations to determine whether policies, procedures, and controls are effective against identified vulnerabilities and take remedial actions, as needed.

Response: Agree - SBA has completed Certification and Accreditation Reviews of the four systems identified in the FISCAM report. Certification packages are being prepared for those systems. Additional reviews have been scheduled for, and will be performed on, all remaining SBA IT assets.

5. SBA should develop and implement a centralized mechanism to monitor and enforce compliance on information security by employees, contractors, and Program Offices.

Response: Agree - SBA will review available mechanisms for IT security compliance/monitoring and implement appropriate solutions. Selection and implementation of appropriate mechanisms will require considerable analysis due to the disparate nature of activities impacting, or impacted by, IT security requirements.

IT HUMAN CAPITAL MANAGEMENT

1. SBA should identify its IT knowledge and skills requirements.

Agree. SBA will review its skills and knowledge requirements at least annually to develop and maintain skills requirements summary. In addition, the agency will build IT skills requirements into its investment management data as that data is developed for each major IT project in the Agency's portfolio.

2. SBA should perform periodic IT staff assessments to identify current levels of IT knowledge and skills.

Agree. The agency currently has a limited amount of such data. We will expand and update that information to create a more comprehensive assessment of current IT skills within the agency.

3. Based on results of the assessments, SBA should develop workforce strategies and implement plans to acquire and maintain the necessary IT knowledge and skills to support the agency's mission.

Agree. SBA has already made progress in this area by shifting some resources away from contractor support and toward support for career staff hiring in selected positions. This is intended to reduce the level of reliance on outside staff in critical skills areas, and also to put SBA in a better position with respect to succession planning for IT staff. We will continue to refine this effort and develop a more thorough plan based on the skills survey information we collect this year.

4. SBA should periodically evaluate its progress in improving its IT human capital capability and use the results to continuously improve its human capital strategies.

Agree. We will seek to make successive improvements in this area annually within the limits of federal personnel rules, staffing ceilings and training budgets.

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Comments From the Small Business
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GAO IT Policies, Procedures, and Practices
Evaluation Summary

Selection and Control	Selection process	●	Technical Reference Model	Technical reference model	●	Risk Assessments	Risk assessments	●
	Selection data	●		Standards profiles	●		Awareness	●
	Selection decisions	●		Change management	○		Controls	●
	Control process	○		Legacy systems integration	●		Evaluation	●
	Control data	○		Requirements management	●		Central management	●
	Control decisions	○		Project planning	●		Requirements	●
	Evaluation process	○		Project tracking & oversight	●		Inventory	●
	Evaluation data	○		Quality assurance	○		Workforce strategies & plans	○
	Evaluation decisions	○		Configuration management	●		Progress evaluation	○
	Business processes	●	Other Policies and Procedures	Acquisition planning	○			
Applications	Information flows & relationships	●		Solidation	○			
	Applications	●		Contract tracking & oversight	○			
	Data descriptions & relationships	●		Product evaluation	○			
	Technical infrastructure	●		Transition to support	○			

○ Incomplete or obsolete policies and procedures; ad hoc practices ● Policies and procedures for key functions; selected key practices for planning, monitoring, and evaluation ● Comprehensive, current policies and procedures; practices for planning, monitoring, and evaluation adhere to policies, procedures, and generally accepted standards

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The following are GAO's additional responses to SBA's letter dated April 4, 2000.

GAO Comments

1. Business processes—because SBA has now established a completion date, the statement “SBA has not yet provided a completion date for the architecture” has been removed from the briefing slide.
2. Information flows and relationships—the Chief Operating Officer states that SBA developed an information architecture in 1995 that lists the entities and individual data elements used and collected by each of the SBA business activities. However, the 1995 architecture is obsolete and is being replaced by a new draft IT architecture. The draft IT architecture still does not include the flows and relationships of information needed by different business entities and does not identify who is responsible for maintaining and updating the information. This information is needed for other components of the architecture to develop proper information and communications services.
3. Applications—because SBA has now provided a consolidated list of applications in its latest draft version of the IT architecture, the statement “the draft architecture does not provide a consolidated inventory of applications” has been removed from the briefing slide.
4. Data descriptions and relationships—GAO assessed SBA's current effort to develop its IT architecture and did not compare its effort with other agencies.
5. Technology architecture—GAO did not compare SBA's technology architecture with other federal agency architectures.
6. Technical reference model—the Zachman framework for enterprise architecture calls for populating various “cells” of the framework with models and defining the generic contents of each of the cells of the framework. We noted “SBA has not clearly defined how the framework will be applied for the development of its architecture” because SBA does not identify cells of the framework to be populated with models and if a cell of the framework is not populated with a model, SBA does not explain why that part of SBA IT architecture is not relevant. Also, we noted “SBA IT architecture does not identify the products specifying the contents of the framework” because the contents of SBA's architecture components for applications and technical

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infrastructure do not adequately address plans and controls for defining the roles, responsibilities, and skills required within the architecture process.

7. Legacy systems integration—because SBA has now provided a list of legacy systems for migration to the target architecture, the statement “SBA is also working to develop a list of legacy systems for migration to the target architecture” was removed from the briefing slide.
8. Requirements management—the Chief Operating Officer states that SBA uses IEEE guidance for requirements documentation and has developed procedures for requirements management. We acknowledge that SBA recently said that it will adhere to the format recommended by the IEEE standard for specifying system requirements. However, SBA’s use of this particular industry standard on the LMS project, though commendable, is an exception to the general practices employed by SBA on its other system development projects. SBA lacks organizational policy and procedures for implementing generally recognized best practices in this area, including allocating requirements, implementing requirements traceability, assessing the impact of proposed changes to requirements, and measuring requirements variability for use as a management indicator of project risk.
9. Project planning—the Chief Operating Officer states that SBA is using the LMS project to develop and establish guidance for project planning. We commend the intention of SBA to define guidance for this area and formalize its adoption throughout the agency. Our review focused, however, on reporting what is currently in place and how the current state of affairs compares with generally accepted industry practices. In this regard, SBA’s stated intention is not yet matched by a plan to attain specific improvements in this area. For example, there is no identifiable task or scheduled date for defining, issuing, and implementing agencywide policies on standards and accountability for project planning, the use of the systems development methodology, the application of documented procedures, and the performance of standard organizational practices defined for this area.
10. Project tracking and oversight—the Chief Operating Officer states that SBA managers formally tracked progress on projects that we did not review and informally tracked progress on projects that we did review. Tracking, as applied by best practices in this area, is used to measure,

identify, and report on the health of a project's schedule and cost, as these relate to work products, critical events, and other project commitments. However, we found that at SBA, project management reports were not always available and, when available, lacked comparative data for analysis. In addition, recording and reporting of project information either did not occur, or were inconsistently performed.

11. Configuration management—the Chief Operating Officer states that SBA is performing configuration management for the LMS system and that configuration management guidance is included in the LMS statement of work. Our review of the LMS project revealed that configuration management practices were not performed—we did not find any items placed under configuration management.
12. Needs assessment—the Chief Operating Officer states that SBA conducted a training needs survey in late fiscal year 1998. Our review of IT human capital activities revealed that this survey did not focus on the training needs of SBA's IT staff, nor was it reflective of an analysis of the short- and long-term knowledge and skills requirements of SBA's IT staff. Several times during our review, the CIO stated that SBA had not yet done an assessment of its IT staff's knowledge and skills requirements, nor had it developed strategies for addressing gaps in its current knowledge and skills level.

Chairman BOND. Mr. Brostek.

**STATEMENT OF MICHAEL BROSTEK, ASSOCIATE DIRECTOR,
FEDERAL MANAGEMENT AND WORKFORCE ISSUES, GEN-
ERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING
OFFICE, WASHINGTON, D.C.**

Mr. BROSTEK. Mr. Chairman and Members of the Committee, I am pleased to be here to present our observations on the SBA's management of its human capital. Whether one looks at how well programs are implemented, as Mr. Czerwinski has done, or at how well agencies carry out important managerial support functions, as has Mr. Willemssen, ultimately, an agency's most important asset is its human capital. It is the people who staff an agency whose talent, motivation, and collective effort support organizational success.

I would like to make two points today about the SBA's management of its human capital. First, the SBA has developed a vision for how it would like to operate in the future. That vision, which includes transitioning its workforce from approving and servicing loans to primarily reaching out to new markets and overseeing private sector partners, has implications for the management of its workforce.

Second, the SBA has begun to take steps to better manage its human capital, such as undertaking various workforce planning activities. However, more remains to be done, including completing its efforts to identify the knowledge, skills, and abilities that its employees will need to perform successfully in the SBA's new business environment; estimating the number of employees with those skills that they will need; developing a succession plan for senior leaders and reinstating candidate development programs for those leaders; and finally, ensuring that employees receive adequate training to perform their jobs well.

Before I proceed further, let me explain the basic steps of workforce planning, which will sound quite similar to what Mr. Willemssen has just described. A workforce plan begins with a strategy for how an organization plans to do its business, which will often differ from the way it is presently doing business, and that is the case with the SBA. Once a strategy for how business will be done is complete, an organization must determine how many workers with what knowledge, skills, and abilities will be needed to successfully carry out that strategy. This, then, can be compared to the organization's current workforce to measure whether there is any gap in terms of numbers and skills.

When the extent and nature of any staffing gap is known, then a plan can be constructed for addressing that gap. The plan might include hiring new staff, retraining current staff to acquire new skills, or possibly contracting to obtain services.

In relation to these workforce planning steps, the SBA has developed a vision for how it would like to operate in the future and it has communicated that in accordance with the Government Performance and Results Act. The plan calls for sharply increasing the amount of financial business development and procurement assistance for new markets, that is, minorities, women, veterans, Native Americans, small exporters, and businesses in low- and moderate-income urban and rural areas. In addition, the SBA intends to con-

tinue increasing the portion of loans that are approved and issued by third parties and to sell assets currently in its portfolio.

These changes mean that the SBA will, for example, need to assign more employees to oversee lenders and to perform those outreach services that it anticipates providing to new market businesses.

The SBA has recognized that these changes will require different skill sets than employees may now have. Accordingly, the SBA has determined that it needs to develop competencies, that is, definitions of the knowledge, skills, and abilities that staff will need to perform five functions: Marketing and outreach, leadership, business development, lender oversight, and procurement. While the SBA has developed the competencies for two of these functions, the marketing/outreach and the leadership function, it has not yet done so for the other three.

The SBA also recognizes that it must assess the skill of its current employees in order to measure that gap between current skills and those that will be needed in the future. This remains to be done.

In the interim, the SBA has begun training some of its staff in the skills that it has identified for the marketing/outreach and leadership functions. It is relying also on employees who already perform such functions as lender oversight to train additional employees for those activities.

Although training has been identified by the SBA as critical to transitioning its workforce to the skills needed to implement its new business approaches, fewer of its employees report that they have received the training that they believe they need to perform their jobs than did Federal employees governmentwide in surveys conducted in 1998 and 1999. And, indeed, the percentage of the SBA employees who reported that they felt they were adequately trained decrease between 1998 and 1999.

The SBA also believes that leadership is key to its ability to successfully transform its workforce and to implement its new business practices. Thus, leadership was one of the first competencies that the SBA defined. However, the SBA does not have a succession plan for developing its future leaders and it has not had candidate development programs for senior executives and district directors since 1995.

As I noted earlier, the SBA has undertaken numerous human capital initiatives over the past several years. These include, for instance, reallocating its current workforce to better balance the resources available to provide services to clients locally, beginning to identify the skills that staff will need, and initiating training for those new skills. In addition, this spring, the SBA contracted to develop a workforce transition plan that is intended to help it begin addressing the additional steps that we believe need to be taken.

In summary, although the SBA has taken steps to address human capital management challenges, these efforts are incomplete in several important areas and the efforts that have occurred have not been guided by an overall workforce plan. While a plan itself cannot ensure success in transitioning the SBA's workforce, a well thought out plan increases the odds that the Agency will be successful. Implementing that plan, once it is developed, will take

several years and will require sustained attention by the SBA leadership.

That concludes my oral statement and I would be happy to join the others in answering questions.

Chairman BOND. Thank you very much, Mr. Brostek.

[The prepared statement of Mr. Brostek follows:]

United States General Accounting Office

GAO

Testimony

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U.S. Senate

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SMALL BUSINESS ADMINISTRATION

Steps Taken to Better Manage Its Human Capital, but More Needs to Be Done

Statement of Michael Brostek, Associate Director
Federal Management and Workforce Issues
General Government Division



GAO/T-GGD/AIMD-00-256

Statement

Small Business Administration: Steps Taken to Better Manage Its Human Capital, but More Needs to Be Done

Mr. Chairman and Members of the Committee:

We are pleased to be here to contribute to the Committee's monitoring and oversight of the Small Business Administration (SBA). We will present our observations on SBA's efforts to identify its current and future workforce needs, budget for them, and manage them strategically.¹

Today, we want to make two points about SBA's management of its human capital. First, SBA has developed a shared vision, which includes transitioning its employees from making and servicing loans to primarily reaching out to new markets and overseeing its private-sector partners. Second, SBA has begun to take such steps for better managing its human capital activities as undertaking various workforce planning activities, including developing competency models and related training for some core functions² and realigning and deploying some staff. However, more remains to be done, including

- completing its efforts to identify the knowledge, skills, abilities, and other characteristics its employees will need to perform successfully in SBA's new business environment;
- estimating the number of employees with those skills who will be needed;
- developing a succession plan for senior leaders and reinstating candidate development programs for these leaders; and
- ensuring that employees receive adequate training to perform their jobs well.

SBA is currently developing an overall plan to guide the agency's human capital efforts.

Background

SBA is responsible for several programs to assist small businesses, the largest of which are its loan programs. The manner in which SBA delivers its loan programs has changed significantly during the 1990s. SBA offices used to review the creditworthiness of each loan application and participate in the servicing and liquidation of each loan that went into default. SBA has evolved from directly delivering these types of services to leveraging its resources through public-private partnerships.³ Since 1992,

¹These observations are based on interviews with officials from SBA headquarters and field offices and information and documents provided by these officials as we did our work from August 1999 to July 2000.

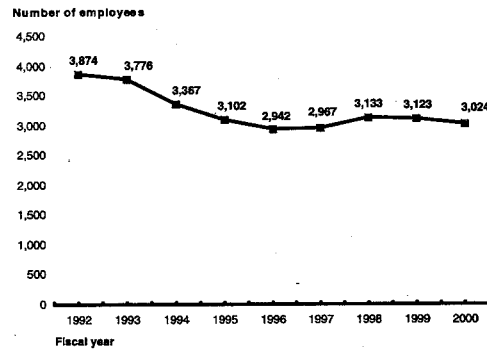
²Competencies are descriptions of knowledge, skills, and abilities and other characteristics.

³Under a public-private partnership, a contractual arrangement is formed between public- and private-sector partners that can include a variety of activities that involve the private sector in the development, financing, ownership, and operation of a public facility or service. Such a partnership,

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SBA has deliberately placed greater reliance on its private-sector partners. The role of private lenders in approving loans has grown from 14 percent of SBA's loan dollar volume in 1993 to 52 percent in 1997. In 1999, SBA's Administrator stated that the agency estimated that more than 75 percent of its loan volume would occur in programs with very limited up-front credit reviews done by SBA staff. According to the Administrator, however, with the outstanding portfolio and loan approvals more than doubling, this shift of responsibility to the private sector has increased SBA's need to oversee its lending partners to protect the safety and soundness of SBA's financial programs. At the same time, since 1992, the size of SBA's workforce has decreased by more than 20 percent. Figure 1 shows the number of SBA employees for fiscal years 1992 through 2000.

Figure 1: The Number of SBA Employees for Fiscal years 1992 Through 2000



Note: The employee data for years 1992 through 1999 were as of September 30 of each year. The employee data for 2000 were as of February 29, 2000. These numbers exclude the number of employees in the Offices of Inspector General and Disaster Assistance and do not include contract personnel.

Source: SBA Employment Summary, March 15, 2000.

while a contractual arrangement, differs from a typical service contract in that the private-sector partner usually makes a substantial, at-risk, equity investment in the project, and the public sector gains access to new revenue or service delivery capacity without having to pay the private-sector partner.

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As of February 2000, SBA had 3,024 employees,⁴ of which 2,326, or 77 percent, were located in field offices, and the remaining 698 were located in headquarters.⁵

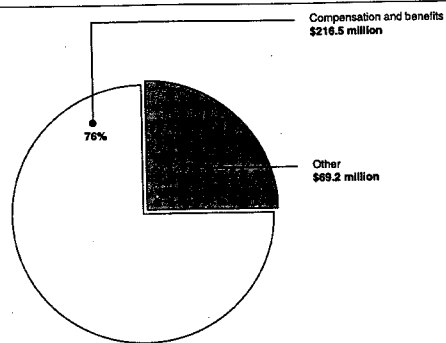
Although the number of SBA staff has been reduced, personnel costs have remained a significant piece of the amount budgeted for SBA's Salaries and Expenses account. Of the \$486.8 million in budget authority in this account in fiscal year 2000, after setting aside funds for various projects specified by Congress, SBA had \$285.7 million in budget authority to manage its operations.⁶ Of this amount, \$216.5 million, or 76 percent, is for employee compensation and benefits, as shown in figure 2.

⁴This number excludes 109 employees in the Office of the Inspector General and 1,147 employees in the Disaster Assistance Program and does not include contract personnel. SBA does not track the number of consultants or contract workers.

⁵SBA's field office structure consists of 70 district offices, 10 regional offices, and 9 loan processing and servicing centers located throughout the United States, Puerto Rico, Guam, and the Pacific Trust territories.

⁶This authority excludes funding for administration of SBA's disaster loan programs and the Office of the Inspector General. In addition, this excludes budget authority for SBA's business and disaster loan credit subsidies, Surety Bond Guarantees Revolving Fund, and Pollution Control Equipment Fund Liquidating Account.

Figure 2: SBA's Fiscal year 2000 Personnel-Related Costs



N = \$285.7 million

Source: SBA fiscal year budget data.

In response to demands for improved government services and better stewardship of public resources, the federal government is adopting the principles of performance-based management. Such management systematically integrates thinking about organizational structures, program and service delivery strategies, the use of technology, and human capital practices into decisions about the results the government wants to achieve. As we have reported previously,⁷ there is no single recipe for how an organization should manage its most important asset—its people, or human capital. However, we have identified a number of human capital elements common to high-performance organizations that fall within a five-part framework. The framework and some of its elements are as follows:

- strategic planning, which includes establishing a shared vision—that is, a mission, vision for the future, core values, goals, and strategies—and creating a coherent human capital strategy—that is, a framework of human

⁷ See Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999).

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capital policies, programs, and practices specifically designed to steer an organization toward achieving its shared vision;

- organizational alignment, which includes workforce planning—that is, managing the size, composition, and deployment of the workforce;
- leadership, which includes fostering a committed leadership team and providing continuity through succession planning;⁸
- talent, which includes recruiting, hiring, developing, and retaining employees with the skills for mission accomplishment; and
- performance culture, which includes establishing an environment that enables and motivates staff while ensuring accountability and fairness to employees.

SBA Has Developed a Shared Vision

As we have previously reported, high-performance organizations begin by defining what they want to accomplish and what kind of organization they want to be.⁹ They define a shared vision and communicate that shared vision clearly and consistently. An organization's shared vision is to provide the standard for assessing the appropriateness and effectiveness of everything the organization does. An indication that an organization has developed a shared vision is that its strategic plan, annual performance plans, or other guiding documents include a clear and coherent portrayal of that vision.

SBA has communicated its shared vision in its various strategic planning documents prepared in accordance with the Government Performance and Results Act of 1993 (GPRA).¹⁰ In its performance plans, SBA has broadly defined its vision for the future as "a modernized SBA, increasing opportunities for all small businesses." SBA's fiscal year 2001 performance plan states that the agency must sharply increase the amount of financial, business development, and procurement assistance for "new markets"—

⁸ Succession planning is a comprehensive, ongoing strategic process that provides for forecasting an organization's executive resource needs; identifying and developing potential SES candidates; and selecting individuals from among a pool of qualified, diverse candidates to meet executive resource needs.

⁹ See GAO/GGD-99-179, September 1999.

¹⁰ GPRA is designed to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance, measure performance, and report on accomplishments. Among individual agencies, effective implementation of performance management, as envisioned in GPRA, hinges on an agency's ability to strategically manage all of its resources—financial, information technology, and people—to carry out its organizational mission and achieve its goals.

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that is, minorities, women, veterans, Native Americans, small exporters, and smaller businesses located in low and moderate income urban and rural areas. The fiscal year 2001 plan also states that SBA will need to provide an expedited response to disasters, maintain a high level of disaster loan underwriting quality, and use electronic processes to provide needed credit more quickly, widely, and cost effectively. In addition, as part of an internal management goal, SBA states that it must modernize its operations and that these modernization efforts will need to include (1) changing core functions to include business outreach, marketing, and improved partner relationship management—relying more extensively on outsourcing, privatization, streamlining, and reengineering; (2) improving internal controls and external program oversight; (3) upgrading and modernizing its information systems; (4) using the Internet and e-commerce to become more accessible to more customers when and where they need assistance; and (5) preparing its workforce for the future, especially through training and relocation, to put customers first, use partnerships and technology, and achieve results.

SBA Has Begun Taking Steps to Better Manage Its Human Capital Activities, but More Remains to be Done

As we have previously reported, once an organization has defined and communicated its shared vision, the organization should design a framework of human capital policies, programs, and practices to steer the organization toward achieving that vision.¹¹ An underlying concept of human capital management is that all major aspects of a human capital policy are interrelated and should be integrated into a coherent human capital strategy.

In the past few years as SBA's business approach has been changing, the agency has begun to take steps for better managing its human capital activities, including activities in workforce planning, leadership, talent, and performance culture, to meet this challenge. However, more remains for SBA to do in each of these areas. For example, SBA has not yet fully defined the knowledge, skills, and abilities that its staff will need to carry out its mission with the service delivery strategies it has adopted. SBA also does not know the number of staff with these skills it will need. In addition, SBA may not have the appropriate complement of leaders it will need because it has not performed succession planning or been able to follow through with investments for its leadership candidate development programs. Given SBA's decision to retrain its existing employees, the agency is faced with the challenge of improving on recent survey results concerning whether employees believe they receive adequate training to perform their jobs, and the agency has struggled to fund the training it

¹¹See GAO/IGGD-99-179, September 1999.

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SBA Has Recently Undertaken Some but Not All Needed Workforce Planning Activities

believes necessary to transition its employees. Finally, although SBA has plans for revising employee performance standards to reflect changes in how it is doing business, the effort cannot be completed until SBA has finished defining the knowledge, skills, and abilities employees will need.

As part of organizational alignment, workforce planning is the process by which an organization plans and manages the size, composition, and deployment of its workforce. Workforce planning involves "getting the right people with the right skills into the right jobs at the right time." Such planning assists organizations in forecasting future conditions and developing programs and strategies to meet future needs. Previous work has shown that federal agencies have generally not performed workforce planning. Since 1980, we have identified the lack of workforce planning as a long-standing problem among federal agencies.¹² In 1999, the National Academy of Public Administration (NAPA) issued a study that discusses the importance of workforce planning, stating that while most agencies do not practice such planning, some agencies had begun workforce planning programs in the past few years.¹³

Because workforce planning must be done strategically, we and NAPA have stated that workforce planning should be a long-term effort related to an agency's strategic planning under GPRA. Explicitly linking workforce planning to agency strategic and program plans allows an agency to justify expenditures for human capital in relation to the accomplishment of long-term goals and objectives.¹⁴ Such a linkage requires either a discussion of workforce planning in the agency's strategic or annual performance plans or a separate workforce planning document linked to the agency's strategic and program planning. Workforce planning should include (1) an identification of the knowledge, skills, and abilities and other characteristics (i.e., competencies) needed by the future workforce, the competencies of the current workforce, and gaps between the two; (2) the development of a workforce action plan designed to address the gaps; and (3) a monitoring and evaluation of the workforce planning actions taken.

SBA has undertaken various workforce planning activities over the past few years to begin identifying the knowledge, skills, and abilities its employees will need to carry out new or changing functions and to help

¹²See Federal Workforce Planning: Time for Renewed Emphasis (FFCD-81-4, Dec. 30, 1980) and U.S. Department of Agriculture: Need for Improved Workforce Planning (RCED-90-97, Mar. 6, 1990).

¹³See *Building the Workforce of the Future to Achieve Organizational Success*, NAPA, a compendium of focus papers (Washington, D.C.: Dec. 1999).

¹⁴See GAO/GGD-99-179, September 1999.

SBA Has Developed Competency Models and Related Training for Some but Not All Functions

realign and deploy staff to address its new and changing workforce functions. However, although these activities indicate a human capital focus, SBA has not yet completed its efforts to define the knowledge, skills, and abilities its staff will need in the future or the number of staff that will be needed with those skills in its various offices. As SBA has undertaken workforce planning activities, it has been constrained by cost pressures that largely resulted from higher than planned personnel costs, requiring the agency to take actions to control and limit those costs. SBA has recently hired a contractor, who, according to agency officials, is to integrate ongoing SBA workforce planning activities to help the agency better coordinate these activities and determine the number of staff with specific skills that need to be located in each office.

SBA identified five core functions that it believes are critical to transforming its workforce. These include marketing and outreach, leadership, business development, lender oversight, and procurement. For each of these functions, SBA determined that it needed to develop competency models. Competency modeling, a key part of workforce planning, is systematically identifying the competencies—that is, the knowledge, skills, abilities, and other characteristics—that employees need to successfully perform their jobs. Once identified, competencies can form the basis for hiring new staff with appropriate skill sets, identifying training needs for current staff, establishing performance standards for employees, and for making decisions related to promoting and rewarding staff. As part of this effort, SBA also planned to develop related position descriptions and performance standards. As of June 2000, the agency has developed models and training for two of the five functions.¹⁵

According to SBA officials, the agency worked to develop the marketing and outreach competency model early on, because it was a critical new function into which SBA has been transitioning many of its employees. With the help of a contractor, SBA completed the identification of skills for this competency model in September 1999. SBA defined the role of the marketing and outreach specialist as identifying and locating end-user customers, particularly “new markets;” identifying lenders and resource partners; identifying the needs of, and obtaining feedback from, customers; and providing “best practices” in customer service and satisfaction. SBA identified a training curriculum to assist employees in acquiring the skills to perform this function, consisting of existing SBA training courses and a

¹⁵In addition, we recently reported that SBA had not performed a human capital assessment to identify short- and long-term information technology knowledge and skills requirements. *Information Technology Management: SBA Needs to Establish Policies and Procedures for Key IT Processes* (GAO/AMID-00-170, May 31, 2000).

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newly developed marketing and outreach course. An SBA official said that the agency has also recently completed a position description and related performance standards for a marketing and outreach specialist position. Although the official from the Office of Human Resources said SBA has completed a position description for this specialist position, an SBA official in the Office of Field Operations said that only large district offices would likely designate individuals to actually become marketing and outreach specialists. These officials said that most district offices are too small to designate individuals as marketing and outreach specialists and that the more likely scenario would be that marketing and outreach would be just one of several functions for which individuals are responsible.

SBA also contracted for a leadership competency model. According to SBA, to achieve its mission, it must continue to initiate new strategies for achieving a high-performance environment, and one of the strongest influencing factors for a successful transformation is the effectiveness of an organization's leaders. To identify the skills needed by its senior managers, in fiscal year 1999, SBA adopted skills for a leadership competency model developed by a well-known leadership education organization. The agency partnered with this organization to provide a training course to enhance its senior managers' abilities to direct the agency's transformation. In addition, the agency contracted for development of a similar course for its mid-level managers. According to SBA officials, SBA modified the position description of the district director position to incorporate the new skills.

According to SBA officials, the agency does not plan to contract for the development of competency models for the remaining three core functions—business development, lender oversight, and procurement—until at least fiscal year 2001, because of budgetary constraints. SBA's Office of Human Resources estimated that for fiscal year 2000, it needed \$200,000 to develop the business development and lender oversight competency models.³ When it received no specific funding in its fiscal year 2000 appropriation for development of competency models or transition skills training—that is, competency-based training—SBA decided to defer the development of these two models. A senior SBA official said that SBA does not consider the lack of competency models and competency-based training for these remaining functions a barrier to SBA's workforce transition. SBA officials said that although the functions are new to many of its employees, the agency has long had a core group that performed these functions in each district office. The agency plans to rely on the core

³The development of the procurement model was scheduled for fiscal year 2001.

SBA Has Taken Measures to Realign and Deploy Staff but Has Not Determined Future Staffing Needs

group staff to provide on-the-job training until formal training can be provided.

Recognizing that in some geographic areas it had too many or too few employees or employees that lacked specific knowledge or skills, SBA contracted for the development of a staffing and resource model to realign and deploy its current district office staff. Using the results of the model, SBA recently initiated a relocation and reassignment program to fill vacancies. However, SBA officials said that the agency has not used the model to project future staffing requirements because it lacks information on the average time it takes to perform certain tasks. As a result, the agency's realignment efforts have been limited to allocating staff to accomplish current workload.

SBA first hired a contractor in 1997 to review its resource usage, develop a baseline staffing model for field offices, and make recommendations so that the agency could better match resources to the agency's strategic planning goals.¹⁹ In August 1998, the contractor provided SBA with a staffing model designed to redistribute staff using fiscal year 1997 workload factors. The contractor made several recommendations, which, he indicated, when used in conjunction with the model, would provide SBA with the basis for equitably distributing staffing in accordance with its workload. One of the recommendations, which the contractor said would provide better information to update the model, was for SBA to establish a method to properly capture the time spent performing various functions in various program areas. SBA officials stated that subsequently, in 1998, the agency established a procedure to collect data on where SBA personnel spend their time by activity. SBA then aggregates the data by office, including headquarters. In 1999, SBA hired the contractor to update the model using fiscal year 1998 data. SBA shared the results of the updated model with its district directors in October 1999.

SBA stated that the updated model was based on how SBA previously performed functions and not on how the agency had been changing its business practices. As a result, in January 2000, SBA contracted for the model to be updated using fiscal year 1999 data and to take changed program functions into consideration. The contractor provided the results to SBA in April 2000. This model allows SBA to allocate its existing staffing resources across district offices.

¹⁹A senior SBA official said that the agency plans to contract for similar staffing and resource allocation models for its headquarters program offices and its servicing/processing centers.

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According to field office officials, the agency has not used the model to project future staffing requirements because it lacks information on the average time it takes to perform certain tasks. These officials said that SBA plans to contract for a study that would provide the agency with standards for averages on how long it takes to perform such tasks. According to these officials, once this information is available, the agency will be able to use the model to project the number of staff needed to perform functions in the future.

Using the results of the staffing model, adjusted for such factors as the minimum staffing that SBA officials believe is required to have a fully functioning district office, SBA recently initiated a relocation and reassignment program. The program is comprised of three phases—phase I, voluntary relocation; phase II, voluntary relocation with relocation incentives; and phase III, directed or involuntary reassignment. Under phase I, which took place from January to May 2000, SBA advertised vacancies in several district offices and selected 11 employees for transfer. Under phase II, which took place from May to July 2000, according to SBA officials, the agency, with union agreement, advertised vacancies and offered one-time relocation bonuses of 10 percent of salary to employees who would voluntarily transfer to one of the understaffed district offices in fiscal year 2000.⁸ An SBA official said the agency selected four employees to transfer under phase II, but only three accepted. Under phase III, which SBA is currently implementing, the agency plans to transfer involuntarily a limited number of employees with required skills from overstaffed offices to offices with critical shortages. SBA officials said that employees who decline to transfer would be subject to termination. According to an SBA official, in accordance with an agreement with its union, the agency will direct the relocation of no more than 11 bargaining-unit employees in fiscal year 2000.⁹ SBA stated that the agency's approach of advertising vacancies in phase I and II was a fundamental step in redistributing the workforce before taking further actions, such as management-directed reassignments.

SBA Initiated Measures to Control Personnel Costs

SBA's efforts to transition its workforce have been complicated by the need to control a surge in personnel costs during fiscal year 1999. An agency official said that SBA began hiring many new employees during fiscal year 1998. According to an SBA official, at the beginning of fiscal

⁸As an additional incentive, after these volunteers complete 1 year of satisfactory service in the new location, SBA is to grant them a 40-hour time-off award.

⁹According to an SBA official, the agency may determine that some non-bargaining-unit employees will need to be directed to transfer. As a result, the total number of employees directed to transfer may exceed the limit of 11 bargaining-unit employees.

year 1999, the compensation and benefit model used to project personnel costs forecasted a budget shortfall by the end of fiscal year 1999 if actions were not taken to bring hiring in line with available funding. However, hiring continued unabated in fiscal year 1999 until January 1999, when SBA had to draw \$5.4 million from reserved funds to cover higher than planned compensation and benefits costs. As a result, SBA could not continue its rate of hiring and still support all of its planned initiatives. Therefore, SBA initiated a hiring freeze, centralized the hiring process, and offered voluntary early retirement to most of its employees. SBA also created a link between hiring decisions and the budget for compensation and benefits and revised the model SBA used to project and manage compensation and benefits costs.

As an immediate measure to control personnel costs, in February 1999, the agency initiated a hiring freeze. At the same time, SBA created a committee to manage hiring for critical vacancies that would be exceptions to the freeze. With the creation of the freeze committee, SBA officials said that the agency centralized its hiring process in headquarters and only hired outside the agency when necessary to fill critical vacancies, such as those for district directors. According to SBA officials, the agency filled 196 positions with external hires between February 1999 and February 2000, because these vacancies could not be filled from within using existing staff resources.²⁸ SBA officials said the agency also used the freeze committee to reassign employees between offices, convert temporary positions to permanent status, and make promotion decisions. Centralizing the hiring process created a logical opportunity for SBA to further realign its workforce. SBA officials agreed that this was an unanticipated benefit of the freeze committee and the centralized approach. According to SBA officials, although the hiring freeze is scheduled to continue through fiscal year 2000, SBA disbanded the freeze committee in February 2000. Nonetheless, the agency's external hiring decisions, as well as its reassignments between field offices, will continue to be centralized in SBA headquarters.²⁹ As part of this centralized approach, all external hiring and relocation requests must be certified by

²⁸Of the 196 external hires, SBA reported that only 81 affected the agency's regular operating budget. They reported that the remaining 115 external hires did not affect the regular operating budget. For example, SBA said these hires (1) were funded from sources other than regular SBA funds, such as Small and Disadvantaged Businesses reimbursements, (2) involved existing welfare-to-work positions or disabled veterans, (3) were offset by reductions in current contract employees, or (4) were for staff that would generate income for SBA from sources such as asset sales.

²⁹SBA has allowed district directors, with the concurrence of the appropriate regional administrator, to advertise positions at or below the GS-12 level that are open to their district office employees.

the Office of the Chief Financial Officer (CFO) to ensure the availability of funding.

According to SBA officials, the agency knew that it had to reduce staff by about 150 positions in fiscal year 2000 to stay within budget even after the staff reductions achieved through the hiring freeze. SBA officials also recognized that not all of their employees would be willing or able to be trained for new or changed functions. As a result, in April 1999, the Office of Personnel Management (OPM) granted SBA's request for authority to offer early retirement to its employees.²² The authority, which was initially granted through the end of fiscal year 1999, provided most SBA employees who were employed continuously since February 1999, an opportunity to retire if they met the age and service requirements for voluntary early retirement.²³ SBA's offer to its employees did not exclude any offices affected by the funding shortfall, in spite of the fact that they would potentially lose and have to replace employees in some hard-to-fill or critical positions. In October 1999, SBA received authority to extend the voluntary early retirement offer through the end of fiscal year 2000.²⁴ In March 2000, SBA amended its earlier retirement offer to state that requests from interested senior executives and district directors would be evaluated individually, based on the interests of the agency. According to SBA, the agency felt it needed to manage the potential loss of key managers. At the same time, SBA also excluded the agency's loan servicing centers from the early retirement offer because, according to SBA, the agency found that it had a difficult time filling positions in those offices as a result of the first voluntary early retirement offer. According to SBA officials, the agency had processed 41 requests for early retirement in fiscal year 1999; as of April 2000, it had processed 18 additional requests; and it anticipates processing 30 additional requests before the authority expires at the end of fiscal year 2000.

As an additional measure, SBA's CFO hired an outside consulting firm to review SBA's model for projecting and tracking compensation and benefit costs and to suggest changes that would improve the agency's ability to project, monitor, and control these costs. According to the consulting firm,

²²The initial authority provided by OPM excluded the Offices of Inspector General and Disaster Assistance Program because they are under different funding. Subsequently, later in April 1999, OPM amended SBA's authority to include loan servicing employees in the Disaster Assistance Program in the early retirement offer because of an anticipated gradual reduction of funding in that program.

²³The age and service requirements for early retirement are age 50 with at least 20 years of service or any age with at least 25 years of service.

²⁴The authority excluded the Offices of Inspector General and Disaster Assistance.

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**SBA Has Recently Contracted
for a Workforce Plan**

SBA's existing model for projecting these costs was complicated (i.e., not easily interpreted or understood by senior management and budget staff) and produced frequently changing projections of SBA's annual requirements. In addition, the model did not permit users to vary assumptions about the costs of new hires and separations projected for each month.

On the basis of a recommendation by the consultant, later in fiscal year 1999, SBA implemented an improved model, which more closely tracked additions to and separations from the workforce and used more timely and accurate payroll data to project costs to the end of the fiscal year. According to SBA officials, the revised model provides better projections of compensation and benefits costs. This, combined with greater centralized control over hiring, makes it more likely that other agency priorities, including hiring and training, can be accomplished within budget.

SBA recognizes that it has not completed all of the needed workforce planning elements. The agency also recognizes that it did not have the capability to carry out all of the tasks associated with workforce planning in-house. As a result, the agency hired a contractor to perform needed workforce planning activities and to develop a plan.

According to a senior-level SBA official, until fiscal year 2000, SBA's workforce planning efforts did not follow a single model and were not contained in a single planning document. Instead, an official in the Office of Human Resources performed workforce planning on an "as-needed" basis. In addition, several offices within the agency—including the Offices of Government Contracting and Minority Enterprise Development and Capital Access—were undertaking their own workforce transformation efforts that were not coordinated with agencywide transformation efforts.

In February 1999, SBA assigned responsibility for coordinating its workforce transition activities to the Associate Deputy Administrator for Management and Administration. The Associate Deputy Administrator said that she visited other agencies, such as the Internal Revenue Service and the Department of Housing and Urban Development, to see how they were doing long-range workforce planning. The Associate Deputy Administrator also said that SBA initially thought that it could perform the needed workforce planning activities, including skills assessments and position descriptions, in-house. However, the Associate Deputy Administrator added that SBA was not documenting how positions were changing, such as how loan processing was changing as a result of asset sales. She

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realized that the agency did not have the expertise in-house to pull together its workforce planning activities into an agencywide plan. As a result, according to the Associate Deputy Administrator, in March 2000, SBA hired a contractor to assist with the agency's workforce transformation.

According to the contractor, he is to identify, among other things, the "as is" and "to be" steps in the transformation process, highlight where "resource balancing" will have to occur, and develop a workforce transformation plan that is to guide the agency's activities. According to SBA officials, the plan is to integrate the various workforce planning activities SBA has already initiated, such as the staffing and resource model, with other needed actions, including an inventory of employee skills. The contractor said that as part of his effort he will describe where SBA is currently, where it is going, the steps necessary for getting there, the resources required, and a schedule for achieving results. As of June 2000, the contractor said that he has been focusing on SBA headquarters offices. The contractor estimated that the workforce transformation plan will be completed by October 2000. However, SBA officials said that they anticipate the agency's workforce transformation will be completed in 2003.

SBA Has Not Identified Its Future Leadership Needs

We have been on record since 1980 about the importance of succession planning as a good management practice for any workforce planning effort.²⁵ Recently, we reported that although we have not reviewed agencies' succession planning efforts lately, available evidence suggests that formal succession planning for members of the senior executive service (SES) is not universally being done.²⁶ SBA has recognized the importance of developing its leadership, as evidenced by its attention to developing a leadership competency model and providing its senior management with training on how to manage change. In addition, as discussed previously, to manage a potential loss of its leaders, in March 2000, SBA amended its voluntary early retirement offer by stating that it would evaluate requests for early retirement by its senior executives and district directors individually, based on the interests of the agency. However, the agency has not performed succession planning to determine whether it will have the continuity of leadership required to achieve its vision or followed through with appropriate investments to fund its

²⁵See FPICD-81-4, December 30, 1980, and Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GAO/GGD-89-19, Jan. 19, 1989).

²⁶See Senior Executive Service: Retirement Trends Underscore the Importance of Succession Planning (GAO/GGD-00-113BR, May 12, 2000).

leadership candidate development programs. SBA officials have stated that the agency must do more to identify and develop future leaders.

According to SBA officials, as of March 2000, the agency did not have a succession plan that included an analysis of attrition rates, retirement eligibility, and retirement rates for its senior managers. Such a plan would help SBA ensure that it had a well-prepared, qualified, and diverse group of people available to fill SES positions. An agency official said that he recognized that SBA had not focused its leadership development programs and succession planning, as it needed to. Our analysis of the workforce data provided by SBA shows that, as of March 2000, 24 percent of SBA's senior executives were eligible for regular retirement, and 39 percent were eligible for early retirement through fiscal year 2000. These percentages are lower than those for the average regular and early retirement rates for senior executives.³⁷ Our analysis of the SBA data also showed that 39 percent of the district directors were eligible for regular and 35 percent for early retirement through fiscal year 2000.³⁸ Not all of SBA's senior managers who are eligible to retire by the end of fiscal year 2000 will do so. However, a number of managers will retire, and it is important for SBA to be ready to replace them with well-prepared candidates.

When asked about succession planning, agency officials said that SBA has candidate development programs that collectively encompass all levels of employees within the agency, and are designed to prepare employees to move into any level of the organization. These officials said, however, that programs for SBA's SES and district directors had not been used since 1995 because of budget constraints. The officials anticipated that, budget permitting, the agency would begin recruiting for these programs in fiscal year 2001.

SBA's Training Efforts May Not be Meeting Its Needs

As we have previously reported, a high-performance organization must identify the best approach for filling its needs for talented employees and follow up with appropriate investments to ensure that it has the best possible workforce.³⁹ As discussed previously, SBA's approach to filling its talent needs is primarily to identify the competencies needed to perform its core functions, retrain existing employees, and limit hiring to fill critical

³⁷Using projected fiscal year 2000 data for 14 selected agencies, 37 percent of career SES members were eligible for regular retirement, and 41 percent were eligible for early retirement. See GAO/GGD-00-113BR, May 12, 2000.

³⁸The district director percentage includes a small number of employees cited in the senior executive calculation because 8 of SBA's 70 district offices have district directors who are in the SES.

³⁹See GAO/GGD-99-179, September 1999.

gaps in skills where existing staff are not available or do not have the right skills.

Retraining existing employees to perform different functions is key to SBA's strategy for transforming its current workforce to support the new business practices that SBA has adopted. Recent survey results indicate, however, that a smaller percentage of SBA employees reported that they had received the training they needed to perform their jobs than did federal employees governmentwide. SBA has struggled to allocate funds that it considers sufficient for providing training to its workforce and has undertaken various measures to provide as much training as possible within available resources.

In both 1998 and 1999, a smaller percentage of SBA staff indicated that they had received the training they need to perform their jobs than did federal employees governmentwide. In 1998 and 1999, 46 percent and 39 percent, respectively, of SBA's employees responded favorably when asked on a National Partnership for Reinventing Government's (NPR) survey whether they received the training they needed to perform their jobs.²⁸ SBA's response rates to that question were below the response rates of 54 and 53 percent of employees who responded favorably governmentwide for those years, respectively. In fact, the 1999 survey results indicate that of the 14 departments and 8 independent agencies responding to the survey, SBA had the lowest published percentage of employees who responded favorably to this question.²⁹

To address the low ratings, the Administrator plans to designate a specific pool of money in SBA's fiscal years 2001 through 2003 centralized training budgets for each district office and to have district directors prioritize training on the basis of employee needs. According to SBA's Administrator, the low ratings are in direct relationship to the lack of funding available to support the changing functions of SBA.

²⁸In 1998 and 1999, SBA was one of over 40 government agencies that participated in the NPR survey. One purpose of the 1998 survey was to create a baseline for measuring selected reinvention initiatives. In addition, both the 1998 and 1999 surveys were to (1) assess and benchmark organizational change on key items, with the 1999 survey comparing its data to the 1998 survey's baseline data, (2) build on OPM's Performance America database, and (3) support collection of a set of balanced measures for federal agencies.

²⁹For the 14 departments, the published NPR survey results for 1999 provide aggregated statistics for several components. It is possible that at least one of these components could have had a lower response to this question, but that response was included in the average for its respective department. Favorable SBA employee responses to other 1999 NPR survey questions were much higher, such as one on whether managers communicate the organization's mission, vision, and skills to which 67 percent of SBA respondents agreed or strongly agreed.

SBA regularly provides for training costs within its annual operating budget. However, in the President's fiscal year 2000 budget, SBA requested \$3 million for training to enhance the skills of employees in performing the new core functions, such as marketing and outreach and lender oversight. This money was not appropriated. Therefore, according to SBA officials, as part of its internal budget process for fiscal year 2000, SBA's Office of Human Resources requested that SBA provide \$3 million for such training out of the annual operating budget that was appropriated. The agency allocated \$1.25 million to cover all of the agency's training needs for fiscal year 2000. SBA's Office of Human Resources planned to use about 95 percent of this amount to fund transition skills training, with the remaining 5 percent allocated to mandatory training. In March 2000, the Office of Human Resources requested that SBA provide an additional \$700,000 for transition skills training and \$500,000 for other training. SBA provided \$300,000 to pay for the development of its workforce transformation plan, \$250,000 for training in the district offices,⁸ and \$48,000 for other training. The development of competency models for two core functions—lender oversight and business development—and the development and delivery of transition skills training remained unfunded.

In order to cope with the resources available for training, SBA has been pursuing several strategies. For instance, according to SBA officials, the agency has encouraged its managers to use their office budgets to fund specific training for their staff. Among the methods some SBA district offices are using to train employees in needed skills specific to those offices is cross-training them in more than one functional area. For example, according to SBA headquarters officials, the district director of the Miami office cross-trained employees in marketing and outreach, lender oversight, and international trade skills. SBA officials in the Dallas/Ft. Worth district office told us that they began cross-training employees in about 1997. These officials also said that they use lunchtime seminars to assist their employees to develop their computer skills. In addition, Dallas district officials said that they created a local group in 1998 to help improve employees' oral communication skills. They said that improving such skills would allow SBA staff "to move from pushing paper to doing marketing and outreach to the public." According to a senior SBA official, by having district directors discuss their cross-training efforts in such forums as its quarterly field management meetings, the Administrator has communicated her expectation that SBA should cross-train employees. Finally, SBA is using employees currently knowledgeable about such

⁸The district offices must present a proposal for how they plan to spend these funds before these funds are made available to them.

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functions as lender oversight to train others who need to acquire or update their skills in these areas.

**SBA Has Taken Some Steps
to Align Its Performance
Culture With Its Vision**

As we have previously reported,³³ high-performance organizations foster a work environment in which people are enabled and motivated to perform according to the mission, goals, and strategies by which the organization has defined its shared vision. For example, such organizations align employee performance expectations with the organization's mission and hold employees accountable for achieving organization objectives.

Under SBA's performance management system for SES employees, SBA evaluates senior executives in terms of their contribution to the goals of the agency and uses the results of performance appraisals as a basis for adjusting base pay, training, rewarding, reassigning, retaining, and removing senior executives.³⁴ According to SBA's SES performance management plan, the Administrator sets the goals and priorities and establishes a framework for specifying measurement criteria for objectives. Specifically, each senior executive's performance objectives, such as the implementation of a specific program, are linked to at least one of SBA's program goals and supporting objectives.

SBA's performance appraisal systems for lower level employees can help reinforce the agency's focus on achieving improved performance. In this regard, as SBA moves forward with defining the knowledge, skills, and abilities its employees will need to perform well in the future, agency officials have recognized that they will need to reconsider whether current performance appraisal standards and measures will need to be modified to better capture these altered skill requirements.

Another contribution to its fostering a performance culture has been SBA's improved relations with its union. According to SBA and union officials, in August 1999, the agency and the union signed a new contract that placed emphasis on promoting a cooperative relationship between the parties and moving away from an adversarial negotiating relationship. According to an agency official, labor and management worked together using interest-based negotiations to find areas of mutual concern and interest before focusing on disagreements. According to SBA and union officials, since the signing of the contract, the agency and the union have operated in full partnership to help ensure the success of the workforce transformation.

³³See GAO/GGD-99-179, September 1999.

³⁴Performance Management: Aligning Employee Performance With Agency Goals at Six Results Act Pilots (GAO/GGD-98-162, Sept. 4, 1998).

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For example, these officials said that union representatives have been involved in the development of the competency models, the workforce transformation, and the agency's relocation and reassignment program.

In summary, Mr. Chairman, designing, implementing, and maintaining effective human capital strategies will be critical for agencies to maximize their performance. Agencies need a strategic approach to managing their human capital activities to ensure that they give the management of their most important asset—their employees—the high priority they deserve. This is especially important in light of limited budgets. SBA, for example, which is a fairly small agency with a limited budget, has undertaken a number of initiatives for better managing its human capital activities, including developing competency models and related training for some core functions and realigning and deploying some staff. However, these initiatives were not centrally coordinated until recently, and SBA is just developing an overall plan to guide the agency's human capital efforts. The human capital initiatives SBA has undertaken, while useful, are incomplete. Consequently, the success of the agency's attempt to redesign its business processes and transform its workforce is potentially at risk. For example, the agency has not finished identifying the knowledge, skills, abilities, and other characteristics that its staff will need to perform the core functions SBA has identified as key to its new business processes. In addition, SBA's lack of succession planning could endanger the leadership continuity, institutional knowledge, and expertise that are critical for the successful transformation of the agency's workforce. Further, a smaller percentage of SBA staff report that they have been adequately trained for their jobs than staff in the federal government generally or any other agency responding to recent surveys. While we recognize that SBA currently has plans to develop a workforce transformation plan by October 2000, the full implementation of such a plan could be several years away. Sustained attention to these issues thus will be important as SBA continues to implement its new business processes and realign its human capital policies and practices to support those new processes.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Committee may have.

Contacts and Acknowledgment

For further information regarding this testimony, please contact Michael Brostek at (202) 512-8676. For information regarding our work on budget issues, please contact Paul Posner at (202) 512-9573. Individuals making

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key contributions to this testimony included Linda Libician, Tyra DiPalma-Vigil, Kiki Theodoropoulos, Denise Fantone, Elizabeth Curda, and Robert Yetvin.

Chairman BOND. We have been joined by our Ranking Member, Senator Kerry, so let me turn to Senator Kerry for comments and questions. Good morning.

**OPENING STATEMENT OF THE HONORABLE JOHN F. KERRY,
RANKING MEMBER, COMMITTEE ON SMALL BUSINESS, AND
A UNITED STATES SENATOR FROM MASSACHUSETTS**

Senator KERRY. Good morning, Mr. Chairman. Thank you very much.

Let me begin, if I may, by expressing what I know others have already said today, which is our sense of personal loss for our colleague, Paul Coverdell. He was what I would describe as a gentle soul and one of the kinds of people here who helps to make this place work and function effectively, who reached across the lines.

I particularly enjoyed working with him, not just on this Committee, where he was always thoughtful and steady, but on the area of education, where he had been charged with responsibilities by the Leader. He and I spent a great deal of time in the last year and a half trying to find the bridge between our two parties and he was always thoughtful and always extraordinarily generous as a listener, so we obviously will miss him greatly and my condolences go out to his family, to all of his staff, and to everybody who feels the sense of loss that the Senate feels today.

I apologize to Mr. Walker, who I know has had to leave, and to my colleague, the Chairman, for not being able to be here at the beginning of this. I certainly welcome the Administrator and I am very grateful to her and I think the Committee should be very grateful to her for sitting through the whole hearing and then responding at the back end.

This is an important hearing. It is always important for the United States Senate to take the time to conduct oversight. I have always been a strong believer in oversight. When I was chairman of a number of subcommittees, I took the time to do that, and I thank you, Mr. Chairman, because I do think it is an important part of our role. In too many committees, they do not take the time to do it and then we pay a price somewhere down the road because of that. So I think we have passed good legislation, and that is always important, but it is important for us to know what is happening within the Agency that we fund and how effectively it is implementing reforms that are needed.

I also think, at the same time, there can be a tendency in the oversight process not to be positive enough about the good things that entities are accomplishing when they are accomplishing them. I do not think the record should avoid an affirmative understanding of the degree to which the SBA has been transformed in recent years from an agency that some sought to literally do away with to an agency that is, I think, extraordinarily strong, extraordinarily capable and dynamic, and I commend Administrator Alvarez for an impressive job, particularly under difficult circumstances with respect to the budgeting.

Mr. Chairman, I would like to ask unanimous consent that a letter addressed to me as Ranking Member from the Administrator regarding the need for the budget, for the full fiscal year 2001

budget proposed in the President's budget, be made part of the record.

Chairman BOND. Without objection.

[The letter of Senator Kerry follows:]



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

July 18, 2000

Honorable John Kerry, Ranking Member
Committee on Small Business
United States Senate
Washington, DC 20510

Dear Senator Kerry:

I am writing to request your support for full funding of the SBA's FY 2001 budget at the \$1.06 billion level proposed in the President's budget. We are concerned that less than full funding will jeopardize the tremendous opportunity at hand to improve our information technology and human capital investments that are needed to serve America's 25 million small businesses.

The House Commerce, Justice, State Appropriation bill provides an operating budget of \$294 million, which is only a modest increase over the FY 2000 appropriation of \$286 million. The increase of \$8 million is not sufficient to cover the increased costs of the expected pay raise in January 2001 and other inflationary increases. Further, SBA would not have sufficient operating funds to cover the necessary information technology and human capital investments needed for modernization efforts.

Our goal is to build an Agency that is responsive to America's small businesses anytime and anywhere. We have changed the way we do business by working better and costing less. We have changed the way we deliver our services, centralizing our processing while decentralizing customer relations. In order to continue this change, we must invest in our future by investing in management improvements. The following is a list of funding requests that are vital to our long-range plans for modernizing SBA and expanding services into new markets.

- We request \$4 million to assist in our efforts to transform our workforce. The SBA is undergoing a massive organizational transformation. We are transitioning from a direct lender to a lender oversight organization with a \$50 billion portfolio. We are integrating new information systems. We are contracting out 30% of our disaster home loan servicing operations. We are continuing an Asset Sales program that will eventually sell over \$10 billion worth of loans. To successfully manage this extraordinary amount of change we need a workforce with new skills and, in some instances, a workforce placed in new locations. In a competitive labor market, one of the best places to find the new skills is within our existing workforce. But our workforce must be retrained. We must have funding to provide training in new skills and to relocate workers to places where they are most needed and will be efficiently utilized.

- The House appropriation includes \$8.0 million to continue funding the Systems Modernization initiative. We are requesting an additional \$5 million to begin the acquisition and implementation of the Paperless Electronic Disaster Home Loan Application and Loan Process. The new system will eliminate paper applications and will operate in an open environment with the ability to share information agency wide. Electronic files will enable users to have access to critical information allowing various processes to take place simultaneously, without having to wait on a physical file. This will greatly enhance SBA's ability to provide prompt decisions and eliminate burdensome and duplicative paperwork. Additional benefits include reduced travel, per diem and labor costs.
- We request \$7.0 million to upgrade basic information technology equipment. The bulk of the funding, \$5.7 million, will be used to replace aging personal computers, printers, and servers. Currently the SBA's computer inventory consists largely of Pentium 100 and 133 machines that are over four years old. Due to budget limitations in FY 2000, the SBA was forced to reduce its computer equipment purchases to approximately \$400,000. This means we will replace around 100 computers out of our inventory of over 3000 machines, and 23 servers out of an inventory in excess of 200 systems. The remainder of the funding, \$1.3 million, will go to purchasing a new network operating system. Our current system was purchased in 1993. We are experiencing difficulties in maintaining a system that is two generations behind the industry standard. It is important to realize that unless the basic information technology infrastructure is funded, the full benefits of system modernization cannot be realized.
- SBA is requesting \$5.0 million to provide management and technical assistance under Section 7(j) of the Small Business Act. This represents a program increase of \$1.4 million over FY 2000 funding. Assistance provided under 7(j) authority includes, but is not limited to, counseling and training in strategic planning, finance, administrative management, accounting, and marketing. The agency will provide these specialized services to firms participating in the 8(a) Program and to firms located in areas of high unemployment or low income. Such areas include HUBZones, Native American communities, and Alaskan Native villages. Assistance provided will increase opportunities available to businesses in these traditionally underutilized areas.
- The SBA requested \$5 million for the HUBZone program, a \$3 million program increase over the FY 2000 level. This program will stimulate economic development in selected urban and rural areas - "historically underutilized business zones," including Indian reservations. With the requested funding, we will be able to support the increased staff required for outreach, program development, and program oversight.

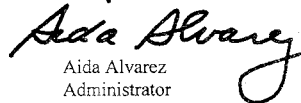
- We request \$2.0 million to hire up to 20 personnel and provide operational support for the New Markets program. In order for SBA to effectively administer and oversee this program, additional administrative support and staffing are needed. Funding to support this initiative is not available within SBA's regular administrative appropriations.
- We request \$1.5 million to fund the Financial Advisor for our expanded Asset Sales program. The Financial Advisor is a required component of the Asset Sales program that is not fully funded in the operating budget. The Asset Sales program could be further improved if the SBA were allowed to take advantage of the gain sharing provisions of PL 104-134. This law gives agencies the right to transfer amounts up to 5% of the increased proceeds due to activities such as loan sales. Gain sharing would enable the SBA to defray the cost of the Asset Sales program and improve current operational systems. I encourage you to support the inclusion of gain sharing provisions in the SBA's FY 2001 Appropriations.
- The House proposal does not fully fund the 7(a) loan program. It provided funding for a loan program of only \$9.2 billion. This would lead to a decrease in the loan level of over a half billion dollars from the FY 2000 program level of \$9.7 billion. This would amount to a 5% reduction in this vital program.

By fully funding these necessary investments, we will be able to improve the infrastructure upon which our ability to provide outstanding customer service depends. Also these investments are necessary for us to fulfill the recommendations made by the GAO in its recent audit at our agency.

The President's FY 2001 budget for the SBA provides us with the opportunity to guarantee outstanding service to our customers through access to capital, educational, contracting, and disaster assistance. And we will also make the investments that will allow the SBA to provide even better and more cost efficient service in the future.

I thank you for your consideration of our budget needs and look forward to working with you to support America's Small Businesses.

Sincerely,


Aida Alvarez
Administrator

Senator KERRY. Thank you. I think it is very important for us to understand the linkage between certain kinds of resources that provide the technical capacity to do some of the things that the panel before us has just talked about, and I am confident that they will affirm that to us, that there is that linkage.

In addition, I will not take the time now to go through all of what the Agency has accomplished. I do think it is important to recognize that just one company that it has helped, and there are many that it has helped to form, just one company, Intel, for instance, pays yearly taxes to the Federal Government that completely cover the Agency's annual budget. So we need to measure the numbers of people who have received help, the amount of commerce and transaction that takes place, the numbers of jobs created, the amount of tax base returned to the United States by virtue of the SBA, and I think that needs to be part, also, of the oversight process.

I also want to say, Mr. Chairman, I think we need to be a little bit cautious about the amount of current oversight taking place. This is a good report and I am not suggesting this is not a healthy and important process. But in the past year, the SBA has been the subject of over 40 GAO audits or reviews, and I think 20 to 24 are currently underway. One of the things we might want to consider is how much administrative time gets chewed up responding to these kinds of requests and how it needs to be measured against the overall availability of personnel and capacity to do it.

Now, on the 8(a) program, I know that some of the criticisms found are similar to criticisms that have plagued the program for many years and we are struggling with them. But I do think that it is also important to note that the Agency has taken numerous steps over the last years to try to guarantee that 8(a) firms in larger numbers will receive contracts, and I think that has been a good faith effort.

I am not going to go through all of my thoughts and comments on the report here, but I do think that the methodology needs also to be as fair as possible. Let me just give an example.

One of the criticisms was that the SBA needs policies and procedures to control key IT processes. That is sort of a headline in the report. Well, we all agree that there is room for more improvement, but in my judgment, it might be more accurate to say that the SBA needs more policies and procedures because the headline sort of suggests that there are not any. It needs policies and procedures. Well, there are some. It just needs more and needs to refine them.

Another example would be that the rating system set forth is kind of all or nothing. You get this empty circle, which represents incomplete or obsolete policies, and then you have the half-circle, which represents policies and procedures for key functions, but there really ought to be some kind of a mark or circle to represent that they are drafting policies or have hired consultants who are developing policies or procedures are currently being put in place. There is a distinction between ignorance and complete avoidance of responsibility and simply developing policies or procedures, or being behind where you would like them to be. There is a distinction between that and simply not doing anything.

So these are the kinds of things that I think are important to the fair-mindedness and level-playing field as we try to approach this. But again, I think the gist of what has been presented is very important to us as a Committee. I think it is a good report, a good piece of work by the GAO, and it will be helpful, ultimately, in making the SBA even stronger, and I think the Committee is grateful for that.

Mr. Chairman, I thank you for allowing me the time to make an opening statement.

[The prepared statement of Senator Kerry follows:]

STATEMENT BY SENATOR JOHN F. KERRY, RANKING MEMBER
Committee on Small Business
Hearing entitled
"The GAO's Performance and Accountability Review: Is the SBA on PAR?"
July 20, 2000

Good morning and welcome to the Committee's hearing, "GAO's Performance and Accountability Review: Is the SBA on PAR?" I would like to thank Chairman Bond for holding this hearing. Before I turn to the substance of the hearing, I would like to express my condolences to the family of Senator Paul Coverdell. Certainly, his loss is felt throughout the Senate. He was a valued member of this Committee, a valued member of the Senate, and a tireless worker on behalf of the nation's small businesses. We will miss him, and we have lost a tireless fighter and effective Senator. We all have heavy hearts this morning, and I ask that as we conduct our work this morning that we take a moment to remember him and his work.

Mr. Chairman, I think it is critical that we as a committee continue to monitor the Small Business Administration's operations, procedures, operating standards, and visions for the future. I think that, together with passing small business legislation and hearing the concerns of small businesses, oversight is one of the important roles of this Committee, and I thank the Chairman for his continued leadership in this area. I would also like to thank Comptroller General David Walker and his staff, as well as Administrator Alvarez and her staff, for all of their hard work in preparing for today's hearing. Welcome, Administrator Alvarez, and Mr. Walker, to the hearing today.

When we hear GAO's testimony, and review the reports scheduled to be released today, I think we need to understand a few facts about the Small Business Administration, and keep them in mind as we perform our oversight function. The SBA is a strong, capable, and truly dynamic agency. For its relatively small size, it performs an outstanding service for our nation. Administrator Alvarez should be commended for the impressive job that SBA has done in the past few years. It is often said that "numbers don't lie" and SBA has a record of success that any federal agency would be proud of.

- Since 1992, the agency's loan portfolio has almost tripled - from \$18.9 billion to \$50 billion.
- Last year, the agency approved \$3.4 billion dollars in loans to more than 12,000 minority owned businesses - three times the amount in 1992.
- The agency represents less than .05% of the entire federal budget.
- One of the firms that SBA helped establish, Intel, pays yearly taxes that would cover the agency's annual budget.
- SBA remains the only Federal credit agency that has received a "clean opinion" in its financial audit report for the past four years in a row.
-

Oversight is important, Mr. Chairman, but it must be executed in a fair and productive manner. No one wins if an agency spends a disproportionate amount of time, energy and

resources responding to audits and examinations. The American taxpayers expect Federal agencies to provide the best services they can at reasonable costs. SBA, with its successful array of small business programs is a good example of cost-effective government at work. This is true despite the fact that in the past year, SBA has been the subject of over 40 GAO audits or reviews over the past year, and 20 audits are currently underway. Having said that, I think that GAO has presented for our review here today well-researched and thorough reports, and I commend Mr. Walker and his staff for their efforts.

Turning to the 8(a) program, proponents of the program, and I am one of them, strongly believe that the program is the only program in the Federal government whose goal is to assist minority firms in the development of their businesses.

GAO found through its survey of participating firms that their criticisms of the 8(a) program are the same that have plagued the program for years - namely, a large percentage of contract dollars are awarded to very few firms, and only one-half of the firms participating in the program receive contracts at all. For example in 1988, 50 percent (\$3.2 billion) of the contract dollar awards went to only 209 of the over 6,000 firms in the program, while 3,000 firms received no awards at all.

While these statistics are correct, it creates a misimpression that SBA has not tried to ensure an equitable distribution of both contract awards and dollars. In fact, SBA has taken numerous steps over the last five years to try to make sure a greater number of 8(a) firms receive contracts. It makes sense that certain firms will command a share of 8(a) dollars if they have established a good working relationship with a particular agency. It would not make good business sense or build support for the 8(a) program if the program were to require a particular agency to stop contracting with a firm (in terms of renewing a contract, or awarding a new contract) with which they have had success with in order to accomplish a "fair" distribution of contracts.

The testimony submitted by GAO notes that even with its two information systems, the Servicing and Contracting System (SACS) and its Minority Enterprise Development Central Office Repository (MEDCOR), SBA does not have an efficient way of tracking 8(a) business participation. This is apparently true both in terms of contract awards, and in terms of business development. I would like to point out that SBA has acknowledged that its system is flawed and it plans to update the system as part of an agency-wide systems modernization initiative. The 8(a) program update is Phase III of that initiative, and is scheduled to begin in 2002. Correctly, in my view, SBA has chosen to first tackle its loan monitoring system, which is responsible for a loan portfolio of more than \$50 billion.

GAO's Information Technology report raises a lot of questions for me, and I plan to submit most of them to be answered for the record. To be constructive and beneficial to SBA's mission, I think Congress, the agency and the GAO should agree that we will treat this as an assessment tool to help SBA become one of the first Federal agencies to develop and follow such high IT systems standards.

I think this report is useful for identifying improvements, but, unfortunately, sometimes the tone and presentation format mischaracterizes the agency's efforts. For example, the title of

this report suggests that SBA has done nothing - "SBA Needs Policies and Procedures to Control Key IT Processes." We all agree, based on the report and SBA's own self-assessment, that there's room for improvement. However, I think it would be more fair to say "SBA Needs *More* Policies and Procedures...." As another example, the rating system is basically all or nothing. Between an empty circle, which represents "incomplete or obsolete policies," and the half circle, which represents "policies and procedures for key functions," there should be a mark to indicate that an agency is drafting policies or has hired consultants to develop policies and procedures. An empty circle next to a category signals zero action. That's just not true for SBA.

As I understand it, the agency has been working for more than two years on a loan modernization system. On that monumental effort, SBA is on schedule and within budget. I think that the report should reflect this. GAO says in the IT report that SBA has 42 mission-critical systems, 32 of which support loan activities. I think it's significant, and it would be helpful to complete the picture of SBA's efforts, to note that SBA is developing a plan to revamp its overall information technology systems and is starting with the loan systems. I realize the loan modernization system project is one of several aspects of the loan system, but we're talking about *the* model for SBA's IT systems and protecting the soundness of more than \$50 billion in loans. Yes, let's make these systems effective, and it's helpful to have recommendations to avoid cost overruns and make the processes more efficient, but we should recognize that SBA is in transition. This is a starting point. Assessing the model mid-stream seems premature.

Also, I think it is unfair to SBA to have a hearing on this report some six months after the GAO collected its data and evaluated the agency's progress. Neither the report nor GAO's written testimony adequately reflects the progress SBA has made since February. I use the February time period because, according to the SBA, GAO gave the SBA the draft report for comment in February, at which point all the information had been collected and assessed. In one of my submitted questions, I ask that SBA explain the steps it has taken to address the recommendations in the IT report since it first learned about the GAO's preliminary findings.

In the area of human capital, it is important to note that SBA has communicated a strong vision of its goals and future needs. While all of the processes and procedures may not be in place, SBA's planning in the area of human capital is ahead of other federal agencies. As the GAO notes in its testimony on human capital, "Previous work has shown that federal agencies have generally not performed workforce planning. Since 1980...the lack of workforce planning [has been identified] as a long standing problem among federal agencies. In 1999 the National Academy of Public Administration issued a study...stating that while most agencies do not practice such planning, some agencies had begun workforce planning in the past few years." Additionally, the report also notes that SBA has identified five core functions needed to transform its workforce - marketing and outreach, leadership, business development, lender oversight and procurement. As of July 2000, the agency has developed models and training for two of the five functions and has plans for addressing the remaining core functions.

To conclude, Mr. Chairman, I believe the SBA is in good shape, and we need to keep in mind that the agency provides outstanding service. Thank you for holding this hearing today, and I look forward to the testimony of all the witnesses.

Chairman BOND. Thank you very much, Senator Kerry.
I will submit for the record a letter I sent to Administrator Alvarez in response to her concerns about the budget in which I laid out my views.
[The letter from Chairman Bond follows:]

CHRISTOPHER S. BOND, MISSOURI, CHAIRMAN
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 PAUL COVERDELL, GEORGIA
 ROBERT F. BENNETT, UTAH
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United States Senate

COMMITTEE ON SMALL BUSINESS
 WASHINGTON, DC 20510-6350

July 19, 2000

The Honorable Aida Alvarez
 Administrator
 Small Business Administration
 409 3rd Street, S.W.
 Washington, DC 20416

Dear Ms. Alvarez:

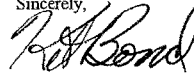
Thank you for your letter of July 18, 2000, concerning the Fiscal Year 2001 budget request for the Small Business Administration (SBA). I appreciate knowing of your concerns and the funding priorities that you have established for the agency. Since I became Chairman of the Senate Committee on Small Business in 1995, I have pushed Congress to ensure that the SBA continues to receive the funding necessary to pay for its core lending and business assistance programs, as well as funding to improve the agency's systems and operations.

Like you, I strongly believe that the SBA must focus its attention on improvements to its information technology and human-capital capacity. In fact, the Performance and Accountability Review (PAR), which I requested that the General Accounting Office (GAO) undertake, has demonstrated clearly that the SBA has considerable work to do before it can implement the minimum information systems and technology necessary for the agency to meet its statutory obligations to the small-business community. In addition, the GAO has reported that the SBA continues to trail in its efforts to assess its current and future human-capital needs, which are essential components for completing the agency's mission.

For the last several years, Congress has appropriated sufficient funding to operate the SBA's core programs in an efficient and economic manner. In addition, we have provided the SBA with adequate funding to improve its technological and personnel capabilities. Despite these appropriations, the SBA's internal funding priorities appear to be inconsistent with your stated goals to improve the operations of the agency. As a result, I continue to be disappointed by the slow pace at which the SBA is using these funds for their congressionally intended purposes.

In light of the GAO's findings, I urge you to implement its recommendations to ensure that current and future funding for the SBA's information-technology and human-capital improvements is used efficiently and effectively.

Sincerely,



Christopher S. Bond
 Chairman

Chairman BOND. We have been joined by the Senator from Maine, Senator Snowe. We call on you for comments, questions, or other observations you wish to make.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, A UNITED STATES SENATOR FROM MAINE

Senator SNOWE. Thank you, Mr. Chairman. I, too, want to express my profound sorrow over the loss of our beloved colleague who served on this Committee and did so many things in the United States Senate that enhanced the institution and enhanced this country. I describe him as a legislator's legislator because he was always developing thoughtful, productive, constructive initiatives to move the process forward, always trying to design solutions to the problems. We are all going to be diminished by his loss.

Mr. Chairman, I just want to commend you for holding this hearing. It is an appropriate function of this Committee to conduct oversight. I congratulate the GAO, who always does an outstanding job in evaluating programs and functions of agencies and also welcome Administrator Alvarez, who I know is taking steps to enhance and strengthen the SBA.

We all support what the SBA does, and as Senator Kerry indicated, it was not too long ago it was targeted for elimination. That is why I think it is so important to constantly evaluate and re-evaluate the responsibilities of the SBA's role so that we can ensure that these programs are being implemented and also fulfilling the mission to which it was designed.

So I want to thank you, Mr. Chairman, for holding this hearing so that we can do everything possible to ensure that we are evaluating these programs, because I think it is exactly what we need to do. In the private sector, they are constantly conducting customer satisfaction surveys and it should be no different in these programs that we are designing to help small businesses and employees to move forward. I hope that we can learn from what has been suggested here today and see what we can do to ensure that these suggestions are incorporated within the Agency's missions and procedures.

Thank you, Mr. Chairman.

Chairman BOND. Thank you very much, Senator Snowe.

Senator KERRY. Could I just ask unanimous consent that my comments be placed in the record?

Chairman BOND. I would hope you would include them because we look forward to reading them, and without objection. We were disappointed that you did not have a chance to give them, but now that they are made part of the record—

Senator KERRY. I mean, if you wanted me to, I would be happy to—

Chairman BOND. Well, I do not want to impose on you, Senator—

[Laughter.]

Chairman BOND [continuing]. But we will be more than happy to include them and send them around to all the Members for their thorough review.

Let me turn to Mr. Czerwinski. There have been comments made and I know the Administrator in her testimony will talk about the

accomplishments of the SBA. Let me just ask, in overview, do you agree that while the SBA has made strides toward serving small business, that there are still some shortfalls that need to be addressed? What is your assessment of what the SBA is doing generally?

Mr. CZERWINSKI. Absolutely, the SBA has made accomplishments, and one of the things that has impressed us is how receptive the SBA is to the recommendations we make. So they are on the right track.

Chairman BOND. That is very encouraging and I appreciate hearing that.

Let me turn now to a detail. Administrator Alvarez, I think, notes about \$180,000 was spent by the SBA in providing information to the GAO. My understanding is that the SBA established a centralized system to manage the GAO report, which is not customary in other non-military agencies. Is that true, and is this a more expensive way to deal with the GAO?

Mr. CZERWINSKI. Yes, that is true. We try to keep our requests for information reasonable. Whenever we are doing work, it is going to entail an effort for the Agency. In this case, we have a point of contact very high up in the Agency, the Chief Operating Officer, and when we ask for information, the SBA has let us know if there is a problem. We have not been told about any specific requests for information that have been considered excessive.

Chairman BOND. But this is a more resource-intensive way of handling the operation than other agencies under audit have utilized?

Mr. CZERWINSKI. Yes. We audit a number of agencies. The SBA definitely has a process in which our work has a much higher level of attention than within other agencies. That is the plus side. The down side is I am sure it costs them and takes them time to do that.

Chairman BOND. Let me turn to the customer satisfaction now. In your report on 8(a) specifically, what did you find that the customers or the SBA employees, for that matter, stated with regard to the satisfaction with the manner in which the 8(a) program is being operated?

Mr. CZERWINSKI. We surveyed the SBA's customers, the 8(a) firms, and we asked them what they wanted from the 8(a) program. They told us they want contracts. And we asked them what they thought they were getting. A very large number of respondents did not feel they were getting the kind of contract assistance they needed, so there was a level of dissatisfaction that was out there in the SBA's 8(a) customers.

Chairman BOND. How about among the employees of the Agency itself?

Mr. CZERWINSKI. We did not survey the Agency employees. We did visit field offices and asked the business opportunity specialists what kind of things they did, what kind of things they would like to do. There was a disconnect because we saw a lot of these specialists doing more in terms of checking, such as getting reports, as opposed to the outreach that the customers are calling for them to do.

Chairman BOND. So we have got a mismatch, some mismatch between customer needs and the kind of service provided.

Let me ask the full panel, under the PAR review, do you believe that the SBA's shortfalls in the management of human capital and information technology have contributed to the problems in the 8(a) program, specifically the ability of the SBA to maintain a data base to understand how the program is operating or whether its business opportunity specialists provide useful service?

Mr. CZERWINSKI. If I could take the first stab at that—

Chairman BOND. Please.

Mr. CZERWINSKI [continuing]. Because I think it is probably easier to start from the programmatic perspective. Your question gets to the very heart of what we are trying to do and that is to integrate what we are finding in the programs with what we are finding in functions. And yes, the 8(a) program would be much better off, for example, if its information systems were stronger. So that kind of functional link-up with programs is essentially what we found.

Chairman BOND. Mr. Willemssen.

Mr. WILLEMSSEN. I would concur with Mr. Czerwinski's comments. To the extent that the SBA already has in place and can have in place a standard way of doing business for acquiring and operating information systems, it is much less likely they will run into the impediments they have in certain programs and supporting systems. It will become more routine and easier to do business and systems will come on line that much more quickly.

Chairman BOND. Mr. Brostek.

Mr. BROSTEK. I do not think the work that we have done enables us to say that human capital problems have led to the problems that Mr. Czerwinski talked about. I would note that to the extent that the SBA would need to refocus the program to provide more of the services that the customers are expecting, that that could have some human capital implications. It might require some retraining of employees to be able to perform those functions more in the manner the customers would like.

Chairman BOND. Thank you. I will turn now to Senator Enzi for his questions.

Senator ENZI. Thank you, Mr. Chairman.

Mr. Czerwinski, on your first chart, it showed that the SBA was not meeting the expectations of the 8(a) minority program participants. We want to get the job done. Did the SBA staff give you any insight into what obstacles prevent them from doing their jobs better?

Mr. CZERWINSKI. Yes. The major obstacle that they pointed out to us was resources, specifically resources for travel. The business opportunity specialists told us that one of the things that they wanted to do was to get out there, to see the firms, to work with them. The firms told us they also wanted the opportunity specialist to be out there working with them to help them get contracts. This kind of connection was not happening anywhere near as much as both the firms and the business opportunity specialists in the field wanted it to happen.

Senator ENZI. If the staff is not able to travel, what are they doing?

Mr. CZERWINSKI. As I mentioned, we have found that the business opportunity specialists have a lot of responsibilities. They are

very, very busy and we received very high marks on their courteousness, their service orientation, et cetera. However, what they were doing primarily was checking and verifying the reporting requirements, documentation, et cetera, for firms' participation in the program.

Senator ENZI. That seems to show up in the comments by the businesses that were interviewed, as well.

Mr. CZERWINSKI. Yes, Sir.

Senator ENZI. You mentioned that the staff did not have sufficient travel funds. Didn't the GAO recently report about a similar problem involving the procurement center representatives?

Mr. CZERWINSKI. Yes, Sir. That is exactly the same issue that came up in that report.

Senator ENZI. Are not the SBA's procurement representatives supposed to be working aggressively at major Federal procurement centers seeking contracts that can be set aside for small businesses?

Mr. CZERWINSKI. Exactly. The concept is for them to be reaching out, being a part of those operations, helping out on the ground.

Senator ENZI. Is it reasonable to believe that they can do that job without traveling?

Mr. CZERWINSKI. No. You have to be there.

Senator ENZI. Mr. Chairman, there does seem to be a growing problem at the SBA where front-line staff who are supposed to be helping small businesses obtain government contracts are unable to do their jobs because they do not have sufficient travel funds. I know that our colleague, Senator Coverdell, was pursuing an investigation into the use of travel funds at the SBA. If it is OK with you, I would like to pick up the work where Paul left off.

Chairman BOND. I would appreciate that. I think that is very important. Mr. Czerwinski has just raised a major problem and I would ask that you work with the GAO and the SBA on this question.

Senator ENZI. Thank you. In particular, I am concerned about a report recently provided to the Committee by the SBA Inspector General. The report details how the SBA maintains a second set of budget books where appropriated funds for SBA programs are skimmed off into a separate account to support unrelated activities at the SBA and the report suggests that some of these appropriated funds were used to support some overseas travel.

Last night, we received some documents—actually, I think it was this morning—from the SBA at the Committee's request that gives the Agency's ledger, which details transactions from this separate account, which I want to get more details on, and which the SBA refers to as its reserve account. The SBA provided the Committee with two versions of the reserve account. One of them is marked "confidential" and one does not carry the confidentiality label. I believe these documents are important as our Committee reviews the Agency's use of this offline account, and I would request that the version of the ledger that is titled "Sorted by Function" and not marked "confidential" be included in the record today.

Chairman BOND. Without objection.

[The information of Senator Enzi follows:]

Small Business Administration
Office of the Chief Financial Officer
Status of Reserve for Unforseen Expenditures
Sorted by Function
(In Dollars)

	Date	Office	Item Description	Amount
1	11/04/98		Beginning Balance	17,289,000
Workforce Transformation				
4	10/22/98	Field Operations	DD Awards	40,000
10	11/23/98	EEOC	Special Emphasis(to 25k)/training-Adj to base	16,000
11	11/24/98	ADA/ED	ED Field Conference	100,000
14	11/25/98	Field Operations	Resource Allocation Study/Gonzalez	15,000
17	11/30/98	Native American	TBiC training	2,000
20	12/09/98	Field Operations	PreQual Training	100,000
25	12/15/98	Field Operations	QMC funding- Oct & Jan. overage	97,000
26	12/15/98	Investment	Organization study	20,000
35	01/21/99	Field Operations	Third Quarter Management Conference	204,000
34	01/21/99	M&A - Admin	Shalom Contract	55,000
38	02/17/99	M&A - Admin	Centralized Training/Quarterly Mgmt Conference	(80,000)
57	05/25/99	Field Operations	Advance for October Management Conference	93,000
	06/08/99	Human Resources	Reimbursement for Advance for October Management Conference (See # 57)	(80,000)
Workforce Transformation Subtotal				582,000
Management Improvements				
7	11/16/98	OCIO	EDS Mainframe conversion	329,000
33	01/21/99	M&A - Imm Office	Travel for ADA - M&A	10,000
37	01/27/99	M&A - Admin	Review of Financial Mgmt System	75,000
52	04/14/99	Capital Access	Travel for Patrick McGowan	13,200
61	06/14/99	M&A - Admin	Review Leased Space Costs and Services	350,000
67	06/18/99	Administrator	Technical Writer for COO	24,000
72	06/29/99	OCIO	FTS 2001 Telephones	150,000
73	06/29/99	OCIO	Security Requirements - OCIO	197,000
81	07/09/99	Hearings & Appeals	Scanner for FOIA	1,000
104	09/29/99	OCIO	Security Contract	516,421
Management Improvements Subtotal				1,655,621
Small Business Outreach				
2	10/22/98	Comm & Pub Liaison	NAC Conference	75,000
6	11/09/98	Field Offices	Outreach- \$2k per office	136,000
15	11/25/98	Investment	Outreach Conferences	75,000
12	11/25/98	Administrator	Administrator/DeputyAdm support	40,000
21	12/09/98	Comm & Pub Liaison	Contract for Small Business Week	100,000
32	01/21/99	Investment	SBIC Outreach Initiative	67,000
39	02/22/99	OCFO	Office of the Vice Pres. for Travel and Satellite Comm.	10,000
42	03/23/99	GC/MED	Annual Procurement Conference	168,000
43	04/01/99	Investment	Adj to Outreach Conf. for Planned Reimbursement	60,000
53	05/04/99	New Mkt Initiative	Travel for Darryl Dennis	15,000
56	05/15/99	Administrator	Travel for two Field detailees/Small Business Week	5,000
58	05/28/99	General Counsel	Additional cost of White House event in Detroit	750
59	06/04/99	GC/MED	Reimbursement for Annual Procurement Conference	(168,000)
63	06/15/99	OWBO	Program Office support	59,000
69	06/21/99	Administrator	Travel for Darlene M. Aida A. and Fred H.	12,000
80	07/09/99	Capital Access	Travel for Microloan Program	4,500
82	07/09/99	Cong & Leg Affairs	Replenish deobligated funds	6,000

7/19/00

	Date	Office	Item Description	Amount
85	07/28/99	Comm & Pub Liaison	Printing of Publications	135,000
87	08/18/99	Capital Access	Travel to Region 1 Conference	800
92	09/01/99	Entrep Dev	Lifelong Learning Summit	7,225
93	09/03/99	Advocacy	Regional Advocates' travel	15,000
94	09/10/99	Comm & Pub Liaison	Travel for Irma Munoz	2,500
95	09/13/99	Administrator	National Advisory Council Meeting	10,000
97	09/14/99	Administrator	Travel expenses for Administrator's office	10,000
100	09/17/99	Entrep Dev	Payments or OPAC bills for Publications	14,516
101	09/22/99	Comm & Pub Liaison	Three (3) trips with the Administrator	7,500
102	09/27/99	Field Operations	Outreach at the Hispanic Leadership Institute Conference	2,000
103	09/28/99	Administrator	Travel Expense	25,000
Small Business Outreach Subtotal				886,591
Globalization				
8	11/16/98	International Trade	Mission to Ireland	71,000
16	11/25/98	International Trade	Mexico Business Connection (3/8-12)	54,000
19	12/04/98	International Trade	No. Ireland/London	46,000
24	12/14/98	International Trade	Argentina Travel	8,000
31	01/21/99	Capital Access	Funding for Women's Canada Summit	20,000
70	06/25/99	Administrator	Travel to London	14,500
71	06/25/99	Administrator	Advance work for travel to London	15,000
74	06/25/99	Administrator	Advance work for travel to London	(15,000)
Globalization Subtotal				213,500
Asset Sales				
23	12/10/98	Asset Sales	To begin process from direct serving to oversee	211,000
28	01/06/99	Asset Sales	Audit Asset Sales process	25,000
68	06/18/99	Capital Access	Office of Asset Sales support	36,800
76	07/07/99	OCFC	Asset Sales - 4 temp accts in Denver	150,000
Asset Sales Subtotal				422,800
Oversight Responsibilities				
3	10/22/98	Capital Access	SBLC Travel/details	8,000
22	12/10/98	Financial Assistance	SBLC MOU	500,000
40	03/03/99	Capital Access	SBLC Examinations	4,800
62	06/15/99	Field Operations	Program Office support	41,000
86	07/28/99	Capital Access	504 Liquidation Pilot Evaluation	15,600
Oversight Responsibilities Subtotal				569,400
Compensation and Benefit Adjustments				
30	01/20/99	OCFO	Revised Salary Estimate	5,432,000
66	06/17/99	OCFO	Savings from Compensation & Benefits management	(1,000,000)
78	07/07/99	OCFO	Summer Hires Program Reinstated	100,000
79	07/07/99	OCFO	Disaster Employees Conversion to Regular Employees	250,000
Compensation and Benefit Adjustments Subtotal				4,782,000
Operating Expenses				
5	11/09/98	Various	Operating Expenses- 10% to base	6,608,000
18	12/01/98	OCIO	GMSI contract for General Counsel	46,000
27	12/16/98	Field Operations	Discretionary funding for field office needs	50,000
29	01/08/99	Financial Assistance	Funding for LowDoc Centers	100,000
36	01/21/99	Inspector General	Criminal History Pilot Reimbursement	13,000
41	03/19/99	Inspector General	FBI Investigations Funding Not Required	(13,000)
44	04/13/99	OCFO	Adjustments for Zero Based Budgeting	1,019,000
45	04/13/99	OCFO	Adjustment for FEDSIM	(1,599,000)
46	04/13/99	OCFO	Net Disaster Chargebacks	(3,649,000)

7/19/00

	Date	Office	Item Description	Amount
47	04/13/99	OCFO	Disaster chargeback for CDSI	1,470,000
48	04/13/99	OCFO	Reserve for Rent expense	1,840,000
49	04/13/99	OCFO	Reserve for Postage expense	900,000
50	04/13/99	OCFO	Reserve for Telecommunications expense	600,000
51	04/13/99	OCFO	Reserve for Printing expense	100,000
55	05/12/99	M&A - Admin	Temp. Receptionist to support Executive Direction offices	2,500
64	06/15/99	OCFO	Relocation expenses for approved Exceptions hiring	400,000
65	06/17/99	OCFO	Decrease in OCFO Reserve Items # 47 - 51	(1,400,000)
75	07/07/99	OCFO	FFS Agreement with Treasury	250,000
84	07/07/99	Capital Access	National Pride Event	960
77	07/07/99	EEO	EEO Program Office support	50,000
83	07/09/99	OCFO	Savings Bond Campaign	5,000
88	08/18/99	M&A - Admin	Advocacy, Communications and Policy offices construction	75,000
51	08/27/99	M&A - Admin	Atlanta Rent Expense	130,000
98	09/15/99	OCFO	Fund Imprest account	8,000
99	09/17/99	GC/MED	Combined Federal Campaign	5,000
105	09/30/99	OCIO	Mainframe Contract	483,808
Operating Expenses Subtotal				7,505,068
Underfunded Mandates				
9	11/20/98	Advocacy	Vision 2000 conference	40,000
13	11/25/98	Administrator	Printing for Advocacy conference	38,000
54	05/04/99	OWBO	Post Award Training for 25 New WBO Centers	25,000
89	08/18/99	Entrep Dev	SCORE administrative expenses	150,000
90	08/20/98	OCFO	Recession under H.R. 1664	399,000
Underfunded Mandates Subtotal				652,000
Grand Total				17,289,000

Senator ENZI. Mr. Chairman, the accountant in me says that we need to look further into the report. I am particularly interested in how this comes about and how it shows up on the Federal Financial System. It would seem to me that the Inspector General at the SBA would be the appropriate office to turn to for help. Seeing the people from the SBA, I assume that somebody from the Inspector General's office is here.

Chairman BOND. Is there somebody from the Inspector General's office here?

Mr. MCCLINTOCK. Yes, Sir.

Chairman BOND. And your name is, Sir?

Mr. MCCLINTOCK. I am Peter McClintock, Deputy Inspector General.

Chairman BOND. Mr. McClintock, thank you.

Senator ENZI. According to the advisory memorandum, your audit of the Administrator's reserve account covered a period ending April 1999. I believe that is even on your website. Would it be possible for you to audit the activities of that reserve account since the last report and covering the remainder of the fiscal year 1999 and 2000, bringing it up to date, and would it be possible for that to be done by August 7 so we can be reviewing it during the recess?

Mr. MCCLINTOCK. We would be glad to do whatever we can and I could meet with the staff in order to work out the details.

Senator ENZI. I would appreciate it. Thank you.

Thank you, Mr. Chairman.

Chairman BOND. Thank you, Senator Enzi. Thank you, Mr. McClintock.

Senator Kerry.

Senator KERRY. I am puzzled by that foreign travel thing here. Is there something out of the ordinary about some foreign travel?

Mr. CZERWINSKI. We have not looked at foreign travel in any parts of our reviews.

Senator KERRY. I remember I was down in Buenos Aires for the climate control meetings and while I was there I happened to meet with the ministers of trade and others and they were very excited about a visit from our Treasury officials and, I think, our small business officials. They wanted to know how to do small business the way we do it in our country and they were particularly looking forward to sort of learning how we do our SBIC, SBIR, where to start, what is the relationship and so forth.

It seems to me, and I wear the hat on both the Foreign Relations Committee and Intelligence Committees, that that is precisely what we are trying to do in terms of encouraging other countries to become capitalist and democratic, and the more we can encourage them to be able to embrace our business practices and learn from us, the stronger it is for us.

So I am puzzled by it. I will certainly wait to see what the interest is or what the ramifications are, but do you not have anything to share with us at this point in time about that?

Mr. CZERWINSKI. No. We have never looked at that issue at all.

Senator KERRY. Let me ask you another question. I assume that the capacity of people to be able to get out and get around the country and do the things they need to do is clearly a function of the overall budget of the Agency.

Mr. CZERWINSKI. Absolutely.

Senator KERRY. Now, is it your judgment that the overall budget of the Agency is adequate?

Mr. CZERWINSKI. I am not going to pass judgment on their overall budget.

Senator KERRY. I mean, can they do the tasks you are criticizing them for without resources?

Mr. CZERWINSKI. We are talking about targeting the resources the SBA already has. Let us just take the 8(a) program as an example of how to use the Agency's budget and resources most effectively, and we think they could do things more effectively. If the 8(a) program had a better sense of what its customers' needs and expectations were, if the SBA had better ways of tracking the service it provided and then measuring the results, that would then lead to a more efficient use of the resources and greater accomplishments in terms of meeting customers' needs.

Senator KERRY. Have you made a specific recommendation of how to go about that?

Mr. CZERWINSKI. Yes, we have. We have a series of recommendations.

Senator KERRY. Could you share with me quickly what you think should be done?

Mr. CZERWINSKI. Sure. The very first step is for the SBA to periodically do what we did: survey its customers. What they need to do is to find out exactly what the profile of the 8(a) firms is and what the firm's needs are. That just gives them a starting point. That gives the SBA essentially a mission, a strategy for meeting the firms needs: essentially outreach, focusing assistance in certain areas, in this case contracting.

Then what is very important is to have in place information systems that capture the amount of assistance provided in terms of contracts, training, technical assistance. That then feeds back into measurements that the SBA needs to establish for accomplishing each of those things, which then cycles back to what the customers are needing. So it should be a customer-driven system. That is what our recommendations essentially state.

Senator KERRY. Just based on my experience, that sounds like a relatively labor-intensive effort.

Mr. CZERWINSKI. I think especially in the information systems, you are talking about a fair amount of work. Mr. Willemssen can give more details.

Senator KERRY. It seems to me that what you are talking about is a combination of labor-intensive and capital, I mean, equipment-intensive. Information technology requires the software, it requires the computers and so forth. Is there some kind of conflict here between what you recommend and the drastic cuts that have taken place to the 7(j) funds? Did you measure that?

Mr. CZERWINSKI. We did not look at what impact the cuts in 7(j) funds had, but we would suggest that the SBA should take the model that we provide, and use that model to come up with a budget. I suspect that when all is said and done, yes, it will take more resources, but we think the SBA could then have a compelling case for asking for resources.

Senator KERRY. Good. Well, I will be interested to hear their point of view on that, but that sounds like a fair observation in the abstract, if you are acknowledging that it may take some additional resources.

Mr. CZERWINSKI. Absolutely.

Senator KERRY. Thank you, Mr. Chairman.

Chairman BOND. Thank you, Senator Kerry.

I have asked Senator Enzi to go participate in the vote and come back so that we will have minimal disruption, and then you and Senator Enzi can carry on, but I will ask a few more questions before I have to go to vote.

Mr. Czerwinski, I had a number of questions about the 8(a) program. I believe you have addressed those in your testimony. Since 1992, the GAO reported that only a small number of firms participating in the 8(a) program received most of the 8(a) awards. Now the SBA reports that it has reduced the concentration of 8(a) awards among the top 10 firms by 40 percent between fiscal years 1997 and 1998. Has the concentration of contracts among a small number of firms really improved?

Mr. CZERWINSKI. Concentration was a problem and still is a problem. There are two points that I would like to make on the measure that the SBA uses.

For one, the SBA talked about the top 10 firms. If you will recall, there are 6,000 firms in the program. I think the SBA needs to have a deeper measure than 10 of 6,000 firms. That is why, when we talked about concentration, we talked about 50 percent of the firms and what kind of coverage they have. In addition to that, the SBA's number talks about 1997 to 1998. Preliminary numbers for 1999 indicate that the trend has reversed and that concentration is pretty much where it was.

Chairman BOND. So a small number of firms are really winning. Can you give us an idea of what would be a cutoff? How many contracts are going to a small number of firms?

Mr. CZERWINSKI. We found there are \$6 billion contract dollars. But the key is dollars.

Chairman BOND. Dollars, yes.

Mr. CZERWINSKI. That is what drives these folks. Dollars, not numbers of contracts. There are \$6 billion being made in contracts annually. There are 6,000 firms out there competing for those. We found that approximately 200 firms got \$3 billion.

Chairman BOND. Wow.

Mr. CZERWINSKI. So the other 5,800 got the balance. Of those 5,800 that got the balance, we found that 3,000 got none at all.

Chairman BOND. So 200 shared in \$3 billion.

Mr. CZERWINSKI. That is correct.

Chairman BOND. The SBA, I believe, would state that the Agency could have access to better data under the 8(a) program if Congress were to permit it to move forward quickly on systems modernization. Let me ask about the systems. Has the SBA made sufficient progress in its information technology planning so that we can be assured that such funds will be used effectively and efficiently, or do you believe it is time to move ahead?

Mr. WILLEMSSEN. We still have 13 outstanding recommendations related to SBA's planned loan monitoring system. Eight of those

focus particularly on the system, five on more cross-cutting areas. The SBA is committed to implementing the majority of those recommendations. Just within the last week, they have again supplied us with a great deal of information that we are currently analyzing to make judgments as part of our ongoing review as to whether they are ready or not.

Chairman BOND. You examined, Mr. Willemsen, several projects on information technology. Is there a problem with a lack of documented practices and procedures and does that have any impact on cost increases, schedule delays, or unacceptable performance?

Mr. WILLEMSSEN. When these generally accepted procedures and practices are not in place, it can have an impact. We have identified a couple of examples. For example, there was an effort known as Smart Stream within the CFO's office where about \$2.4 million was spent on a commercial off-the-shelf package for personnel actions, financial management, and procurement. That encountered a lot of software problems. The personnel component was abandoned after 18 months and the other two components were never implemented. So that is just one example of why it is important to have routine procedures in place so that there is a way of doing business to avoid situations such as that.

Chairman BOND. To give me a better understanding, what kind of procedures would you have proscribed that would likely have avoided essentially wasting \$2.4 million?

Mr. WILLEMSSEN. Yes, Sir.

Chairman BOND. What kind of procedures were not in place that should have dealt with that?

Mr. WILLEMSSEN. Before major information technologies are embarked upon, there is a process where top leadership buys in and says, "Yes, we want this particular project. It is clearly worth the cost. It links to the mission we want to achieve. The risks are manageable. Let us go ahead with it." Once that project is initiated, there needs to be continued monitoring of that project. To the extent that it gets off the rails, gets off track, there needs to be corrective action. And then once the project is implemented, you need to do a post-mortem assessment to see if it is indeed fulfilling the goals that were intended.

Without that kind of process, every project can get started without the kinds of controls that are necessary. Additionally, software-intensive projects need those kinds of controls to reduce the risk that they also will be over cost and not come in on budget.

Chairman BOND. Obviously, we are at the post-mortem state on that software package. That fell off the rails. Did the SBA fail by not having the top level people implementing the system buy into the process or where was it that it went wrong?

Mr. WILLEMSSEN. Yes, not looking at it from an investment management perspective, not having software acquisition practices in place, and then making sure that it could operate in an integrated fashion with the other systems that the SBA had.

Chairman BOND. Given the concerns you outlined and the reports that you gave us that are documented on this chart, I am concerned that some of the deficiencies could adversely affect the SBA's ongoing development of its loan monitoring system. Is this a reasonable concern?

Mr. WILLEMSSEN. It is a reasonable concern and it is the primary reason why planning for the loan monitoring system has been stretched out to some degree. The SBA, I believe, has been very responsive to issues that we have raised. We, along with the SBA, do not want to see a failure as it pertains to the loan monitoring system. We want it to be done right, and clearly, the SBA does, too. So they have taken the extra step. They have not bitten off too much at one time. They are taking a piecemeal approach to try to do it right. By not having those instituted processes in place, it therefore has stretched out a little bit longer than probably the SBA would have liked.

Chairman BOND. In response to the GAO report, the SBA states that it has been recommended that the SBA adopt practices not utilized by other Federal agencies, and, therefore, comparing the SBA with other agencies, there is not a problem with SBA current practices.

Let me ask you a three-part question. First, what are the standards against which SBA performance is judged and are these reasonable for a Federal agency to follow? Second, is the SBA's claim true that the GAO conducted its study based on standards that are ideal rather than practical? Third, should we in Congress be satisfied if it is true that the SBA performs as well as other Federal agencies with respect to IT?

Mr. WILLEMSSEN. Taking your first question, we used a range of criteria in assessing the SBA. Generally speaking, what we considered is standard industry practice, in addition to legal and regulatory requirements. The Clinger-Cohen Act, passed in 1996, was a major piece of criteria that we used, the intent of the Act is to try to end the cycle of failures of information technology projects. We also used guidance from the Software Engineering Institute associated with Carnegie-Mellon University, specifically in the software development and acquisition area. We also used guidance from the IEEE, also the National Institute for Standards and Technology, and OMB guidance.

So there is a range of guidance out there. We have used this guidance for some time. The part of our report today that is a little different is the display of the circles. That was a prototyping effort as part of this project we did at the SBA.

But I think the criteria are generally accepted. It provides the SBA with a road map for where they need to go to better manage information technology. I think these are the appropriate criteria to use. I would be the last person to say that the criteria should be the standards other Federal agencies are adhering to because having done this for the better part of the last 20 years, I can tell you, we repeatedly see problems across government. Therefore, I would not hold Federal agencies out as the standard. We need to strive beyond that and go to generally accepted practices and what the industry sees that should be done.

Chairman BOND. One quick anecdote. When I came to the Senate in 1987, the young people that came with me who had been using information technology with me previously during the campaign had to forget their skills and move backward several generations to deal with the equipment that we had in the Senate.

With that, let me turn the gavel over to Senator Enzi. I will return but meanwhile, we will keep the hearing going. Thank you very much.

Senator ENZI [presiding]. I always enjoy hearing those words “generally accepted.” Of course, I like “accounting practices” to be thrown in there.

I do not have any more questions for this panel. If anyone does, everyone has the opportunity to submit some additional post-hearing questions. So we thank you for your testimony and your answers to the questions.

Senator ENZI. At this point, we will go to the Administrator of the Small Business Administration, Aida Alvarez. We appreciate her attendance this morning and her participation.

But first, we will have a short recess.

[Recess.]

Senator ENZI. I call the hearing back to order and turn it over to Administrator Alvarez for her testimony.

STATEMENT OF THE HONORABLE AIDA ALVAREZ, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.; ACCOMPANIED BY PETER McCLINTOCK, DEPUTY INSPECTOR GENERAL, SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.; JAMES BALLENTINE, ASSOCIATE DEPUTY ADMINISTRATOR FOR GOVERNMENT CONTRACTING, MINORITY ENTERPRISE DEVELOPMENT, SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.; AND KRIS MARCY, CHIEF OPERATING OFFICER, SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.

Ms. ALVAREZ. Thank you so much, Senator. I appreciate the opportunity to speak on behalf of the SBA. I have lengthy testimony which hopefully will be entered into the record.

Senator ENZI. Your entire statement will be included in the record, without objection.

Ms. ALVAREZ. I would rather make more informal remarks. First of all, I want to begin by joining with the others in expressing my heartfelt sense of loss at the passing away of Senator Coverdell, who was a good man and a very important Member of the Committee. He will be missed. I want to extend the condolences of the SBA family to the Coverdell family.

Senator ENZI. Thank you.

Ms. ALVAREZ. I also, Senator, want to thank you for the time that you have taken on GPRA and the really very good meeting that we had at the SBA. I appreciated your coming to the SBA and just taking the time. I know how busy you are, but I think it really is just a mark of the priority that you give to this sort of thoughtful process, and I look forward to working with you and moving forward. We do take GPRA and these planning processes very seriously.

I also want to comment that I shared David Walker’s feeling that the relationship between the SBA and the GAO has been a very constructive one. I would say it has been a win-win relationship. We take their expertise and their dedication very seriously and I believe that they have felt that we are eager to be responsive. So it has been a win-win situation for us.

Many of the findings in the audits were the outcome of a joint effort between the SBA and the GAO. They obviously arrived at those conclusions as a result of the collaboration, so there really were no surprises, and I would say in most cases, we shared their conclusions and are looking to implement their recommendations. In some cases, we have been implementing them all along. So that is where we are with respect to this process.

I thought that it was significant in appreciating the importance of these audits to put them in the context of the bigger picture, because in the end, as has been said here before and as Mr. Walker said, we are here to serve the public. Ultimately, it is about outcomes and how effectively we serve the public and so for all the imperfections of trying to run an agency with many employees and particularly in a time of transformation, I think that this hearing offers us the opportunity to reflect on some very significant accomplishments that have occurred on behalf of small business.

I think the best way to gauge performance is by looking at the results, and so I also brought some charts so that we could look at the results of the SBA's activities over the past decade.

To begin, I think it is important to note the kind of loan activity that has occurred over this decade. This first chart shows the dramatic increase in SBA loan activity over the decade. Since 1993, the SBA has helped about 375,000 small businesses get more than \$80 billion in loans. Important to note, that is more dollars than in the previous 39 years combined, and so many of those loans are going to those in greatest need.

I want to thank Senator Kerry for his sponsorship of the New Markets legislation. I am very pleased that there is action planned in the Senate on New Markets legislation and that the Chairman has scheduled a Senate Small Business Committee markup on the New Markets venture capital and BusinessLinc legislation for next Wednesday. I really am hopeful that the Congress will enact this bipartisan proposal this session. It is very important to Americans around the country.

The second chart points out the ways in which we have helped those borrowers who in the past were underserved. Loans to women, for example, between 1973 and 1989, we made 57,000 loans worth \$5.7 billion. In just the past 7 years, more than 80,000 loans to women worth over \$12.2 billion. That is more than double the previous 19 years combined. I think that again is a mark of effectiveness and success.

Loans to minorities, this chart shows that in just the past 7 years, we have made nearly 80,000 loans to minorities, more than \$18 billion, again, more than doubling the previous 39 years.

In the area of venture capital, the next chart shows the outstanding growth of our Small Business Investment Company program. Since its beginning in 1958, the SBIC program has put almost \$30 billion in venture capital financing in the hands of small business owners. About two-thirds of the \$30 billion has been invested since 1993.

The following chart shows that this program, the SBIC program, is remarkable in many ways. For example, since 1995, it has returned \$224 million in profits to the taxpayers through the participating securities program. These are dollars that have gone back

into the Treasury. And if you think of the cost of this program, \$224 million actually would cover 9 years' worth of costs of the SBIC program. So this is a program that more than pays for itself.

In the area of 8(a) contract awards, and I know we will be talking more about that, we can judge performance by results. The 8(a) program has delivered. As you can see, during this time the total Federal contracting picture has remained stable, there really has been very little growth in Federal contracting, there has been governmentwide downsizing of contracting personnel. There has been acquisition reform. There has been contract bundling. All of that notwithstanding, the 8(a) contract awards increased 81.5 percent, from \$3.4 billion to \$6.2 billion.

Doing more with less, I think that is a good way to describe what the SBA is doing. The next chart demonstrates that over the past decade we have reduced our staff level by approximately 24 percent, from just over 4,100 employees to around 3,100 employees in 1999. Again, bear in mind that at the same time, the SBA loan portfolio has doubled from \$25 billion in 1993 to nearly \$50 billion in the year 2000.

Providing more loans at less cost to the taxpayer. I think this chart is really illustrative of the terrific bargain that the SBA represents to the public. Not only are we doing so much more, doubling our portfolio, but since Federal credit reform was enacted, the cost to taxpayers of SBA loans has gone down from almost \$5 per \$100 loaned in 1992 to a little over \$1 today. Today, a \$1.16 is the cost of lending \$100 in the SBA program.

Everybody likes report cards and everybody likes to see "A"s on their report cards and we have been talking about the use of technology as a very important part of the future of all businesses and government. The SBA has a terrific report card on our website. You can see that ours is an outstanding award-winning website. Forbes rated it as one of the best of the web in the year 2000. Lycos listed it in its top 5 percent. The comments are outstanding, and so it should be no surprise that the SBA website has crossed a new threshold and we are now receiving an amazing 9.5 million hits per week on our website.

Of course, we are very proud of our four clean, or unqualified financial audit opinions, because throughout this period of growth, when things can sometimes get very demanding and slip through the cracks, we have maintained a strong commitment to the safety and soundness of our portfolio. Additionally the SBA was the first Federal Credit agency to receive an unqualified opinion on its financial statements and it is the only Federal credit agency to receive unqualified opinions 4 years in a row.

So I think you can see that we have been taking care of business. We have been keeping our eye on the important mission of the SBA, helping small businesses succeed. There is certainly room for improvement and that is why we welcome this hearing, we welcome the insights of the GAO, and we are looking forward to getting better all the time.

Thank you, Mr. Chairman. Thank you.

Chairman BOND [presiding]. Thank you very much, Madam Administrator, and thank you very much for joining us today and for staying with us as we went through the recommendations. I con-

gratulate you on the “A” report on the website and the clean audits and I think that you should be gratified, as I was, to hear from the General Accounting Office. They felt that there was a constructive working relationship, and while there are problems, they indicated that the SBA is working with them and we hope that after the root canal is completed that this will enable you to improve the performance of the Agency.

I apologize to my colleagues. We did not get the testimony until last night, so we will make your full testimony a part of the record and we will keep the record open for any questions that other Committee Members may have.

[The prepared statement of Ms. Alvarez follows:]

STATEMENT OF
AIDA ALVAREZ
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION

Good Morning Mr. Chairman, Senator Kerry and members of the Committee. Thank you for inviting me to testify this morning. I am proud to be accompanied today by members of the U.S. Small Business Administration's management team. It is their hard work that makes SBA successful in meeting the needs of America's small businesses.

Record Small Business Growth and the Transformation of the SBA

The United States is enjoying one of the most robust economic growth periods in its history. More than 22 million new jobs have been created in the United States since 1992, we have the lowest unemployment and inflation rates in decades, and productivity gains from expanded use of technology have helped send the stock market to new highs. Corporate profits and individual wealth have increased, creating a Government surplus that was unthinkable a few years ago. Although not every segment of society has shared equally in the fruits of this prolonged economic expansion, the United States economy is arguably the most robust in the world, becoming more diversified, more global, and more technological.

The extraordinary economic growth over the past decade has been fueled in large part by growth in the small business sector. There are now more than 25 million small businesses in the United States, 5 million more than in 1990, and the most in the U.S. ever. In fact, almost a quarter of U.S. households own a business, are starting a business, or are investing in someone else's business.

According to research done by SBA's Office of Advocacy, small businesses --

- Represent 99 percent of all employers and 52 percent of the private workforce;
- Employ 38 percent of the private workers in the high technology field;
- Provide virtually all the net new jobs;
- Provide 51 percent of private sector output;
- Provide 35 percent of all Federal contract dollars;
- Represent 97 percent of all exporters, with the number of small business exporters doubling during the five year period from 1992 to 1997;
- And provide more than half of all innovations.

The SBA was created nearly 50 years ago to ensure a strong and vibrant small business sector. Many things have changed in the half-century, but our mission stays the same – to help small businesses start, grow and succeed. The Small Business Act states, “It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small business...to maintain and strengthen the overall economy of the Nation.” Congress understands that a vibrant small business sector is at the core of our economic growth and to the extent that SBA furthers this economic growth, its support of small business is in the best interest of every citizen.

The New SBA

SBA’s workforce and the way we deliver programs have changed dramatically in the past decade, too. Since 1990, our loan portfolio has grown from \$17.5 billion to about \$50 billion. At the same time the number of our employees has decreased 22 percent.

Mr. Chairman, there are still places in America where small firms have not fully participated in the nation’s phenomenal economic recovery. We are committed to helping these new markets gain access to our programs and services. As a “gap lender” that is addressing imperfections in the private market system, SBA has developed aggressive multi-year lending goals to guide our efforts. In addition, we will continue to work in partnership with major businesses, civic and trade associations, and local community groups to take advantage of their skills in reaching those small firms that need the most help. A big part of our mission will be to draw these groups into the mainstream of the American economy as envisioned in the Administration’s new markets strategy.

Working closely with the Congress, SBA has recognized where the private sector could perform our tasks more efficiently, and has contracted out or delegated those activities. SBA is delegating greater authority than ever before to its lending partners. This transition permits greater use of staff for community outreach and greater attention to more complicated loan matters. Most importantly, according to our auditors, we are making the transition in a manner that is financially safe and sound.

Improved Financial Management

SBA received a clean opinion in its FY 1999 financial audit report, the highest rating an entity can receive. This was the fourth year in a row SBA attained this rating. SBA remains the only Federal credit agency to receive four clean opinions. As you know we completed our first asset sale last fall and enjoyed great success. We realized an estimated \$90 million premium over what SBA would have received had we held the loans to maturity. On August 1 we will hold our second sale closely followed by a third in December 2000.

Additionally, since late FY 1997, SBA has taken the lead in the Federal government to begin the implementation of an enhanced internal control program using

the Committee of Sponsoring Organizations of the Treadway Commission (COSO) guidelines. The COSO program provides for a more rigorous level of internal control awareness and processes than are currently required in the Federal Government. These guidelines also are used by commercial banks and other large financial organizations. SBA is well on its way to fully implementing these guidelines, and has committed to being fully COSO-certified by FY 2002 as part of its GPRA strategic plan.

We are emphasizing the importance of improved internal controls and program oversight. We are upgrading and modernizing our information systems, offering every small firm electronic access to our products and services to extend our outreach and offer more customer-driven assistance. And we are transforming our workforce to meet the challenges of the new knowledge-based economy.

We have laid out an aggressive agenda to improve our internal management in the President's FY 2001 budget. We requested \$13 million for systems modernization to improve our lender oversight, risk management, and program evaluation activities; \$7 million for information technology infrastructure support; and \$4 million to train and transform our workforce. Funding these activities will help SBA address the challenges the General Accounting Office is reporting on today. Mr. Chairman, we need your help and that of the other members of the Committee in supporting our request for FY 2001.

It has been a period of astounding growth and change. And throughout, SBA, working with this Committee, has adapted its products, its services and its operations to contribute to the overall growth and vibrancy of the small business sector. The legislative structure of SBA's programs has changed significantly in the past decade. Dozens of changes in SBA's programs have passed the Congress and been signed into law.

Fair, Effective Oversight

Congress, the Executive Branch, and the American public are all looking for better ways to assess the effectiveness of government programs and the value added by our use of taxpayer resources. The Congress has passed several laws over the past decade to provide a framework for measuring results:

- in 1990, the Chief Financial Officer's Act;
- in 1992, the Credit Reform Act;
- in 1993, the Government Performance and Results Act;
- in 1996, the Clinger-Cohen Act and the Federal Financial Management Improvement Act;
- in 1997, PL.105-135, SBA's Reauthorization Act, calling for the completion of eight planning steps for SBA's Systems Modernization Initiative;
- in 1999, the Senate Governmental Affairs Committee, working together with GAO and the Government's Inspectors General, began monitoring high-risk areas and major management challenges of every federal agency.

Even before the commencement of the comprehensive assessment requested by you, Mr. Chairman, GAO was very active at our agency. Over the past year the GAO has conducted or is in the process of conducting 41 audits or reviews of SBA programs and processes. Beginning a year ago, in July of 1999, SBA began meeting with the GAO staff about Information Technology, and in August of 1999 about human capital and the 8(a) program. Currently, GAO has 20 open audits at SBA. During the last three fiscal years, GAO has completed roughly 10 times more audits of SBA per FTE than in the government as a whole. During this same period, GAO has completed roughly 25 times more audits of SBA per SBA's budget appropriation dollars than in the government as a whole.

Mr. Chairman, the audit activity at SBA is not without an impact on the staff and operations of our agency. Since August of last year, we have kept records of the documents requested for the comprehensive assessment. This is exclusive of the many audit activities underway by our agency's own Office of Inspector General (OIG) and the oversight reviews requested by the Senate's Committee on Governmental Affairs and the House Government Reform Committee; by the Senate and House Small Business Committees; and by individual members of Congress.

Since last summer, SBA's senior managers and their staff – the same people responsible for running SBA's programs day-to-day and serving the public – have spent thousands of hours working on these audits. In the past year SBA has provided 799 documents to the GAO or 25,338 pages of material. In the past year alone SBA has spent approximately \$180,000 providing information to the GAO.

Mr. Chairman, I believe in proper and prudent oversight. When I came before this Committee for my confirmation, I stressed my commitment to improving oversight at the SBA. During my tenure we created the Office of Lender Oversight and completed the first ever examination of all 14 Small Business Lending Companies. The second round of examinations is nearing completion. Prior to 1998 only three examinations had been conducted.

In FY 1998, SBA fully implemented a comprehensive Preferred Lenders Program (PLP) review process. All PLP lenders that made a loan in FY 1998 or 1999 have been reviewed. Currently, SBA is conducting its third round of reviews.

Because I feel so strongly that proper oversight is important, I met with GAO Comptroller General David Walker to discuss the comprehensive audit they were beginning. My senior staff – Deputy Administrator Fred Hochberg, Chief Operating Officer Kris Marcy, and Chief Financial Officer Joe Loddo – joined me at that meeting. Mr. Walker's senior staff was also present. We wanted to understand the scope of their planned body of work and the requirements for the compilation of data that would be required of SBA staff.

I believe the success of government programs needs to be measured at SBA in terms of SBA's mission, by the customers we serve, and our accomplishments. I also

believe that oversight needs to be balanced and fair. The Government Performance and Results Act (GPRA) provides a framework for doing this. Let me share some of our accomplishments with you.

Accomplishments on Behalf of America's Small Businesses

- Since 1992, the SBA has helped almost 375,000 small businesses get more than \$80 billion in loans, more than in the entire history of the agency before 1993. No other lender in this country - perhaps no other lender in the world - has been responsible for as much small business financing as the SBA has during that time.
- Since 1958, SBA's venture capital program has put almost \$30 billion into the hands of small business owners to finance their growth. Well over half of that amount has been invested since 1992, in more than 13,000 businesses.
- Last year, the SBA approved \$3.4 billion in loans to more than 12,000 minority-owned businesses, three times the amount approved in 1992. The \$3.4 billion amounts to almost 28 percent of all SBA loan dollars last year, a record.
- Since 1992, the SBA has approved more than \$18 billion in loans to nearly 80,000 minority-owned businesses, more than double the amount recorded during the entire previous history of the Agency.
- We've reduced our staff level by 22 percent over the past decade, from just over 4,100 employees in 1990 to around 3,100 in 1999. At the same time, we've dramatically increased the size of our loan portfolio. In fact, from 1953 to 1993, SBA's portfolio grew to \$25 billion. From 1993 through 1999, the portfolio nearly doubled-to about \$50 billion.
- Since 1994, more than 140 new Small Business Investment Companies (SBICs) have been licensed with initial private capital exceeding \$2 billion, more than the total private capital raised in the prior 35-year history of the program. Those SBICs participated in an estimated 53 percent of all institutional venture capital financing deals in the U.S. in FY 1999.
- In addition to financial assistance, SBA offers business development services to between 900,000 and 1 million small businesses each year through the Small Business Development Centers (SBDCs), SCORE, Women's Business Centers and others.
- At the beginning of the decade, the Internet as we know it did not exist. Today, SBA has an award winning website that offers entrepreneurs free online business planning and other valuable assistance. SBA's website receives over 9 million hits per week.

- SBA made more than 7,300 disaster business loans for more than \$402 million. These loans have enabled businesses to rebuild, saving almost 35,200 jobs. In addition, SBA has made almost 29,000 home disaster loans for \$534 million.
- SBA just conducted its first sale of business loans to the private sector, and realized an estimated \$90 million premium over what SBA would have received had we held the loans to maturity.
- Our ongoing systems modernization initiative will completely overhaul our programmatic, financial and management systems, resulting in better data collection and greater ability to measure the impact of SBA's programs.
- SBA represents less than 5/100th of one percent of the federal budget and the yearly taxes paid by just one of our success stories, Intel, more than pays the costs of running the Agency's annual budget.

As we have noted above, SBA is a strong and vibrant advocate for America's small businesses. It is our mission and our goal to ensure that small businesses are provided the opportunity to fairly compete in our free market system. Our economy is growing and expanding like no other in history, while federal agencies are required to operate more efficiently. Therefore, it is imperative that SBA reinvent itself to ensure that America's small businesses are able to succeed. We are confident that SBA is properly undertaking reasonable and effective measures that ensure our mission, goals, and objectives in the 21st Century.

Now Mr. Chairman, I would like to address the specific program areas that I was invited to testify about.

The 8(a) Business Development Program

The History & Mission of the 8(a) Business Development Program

The 8(a) Business Development Program was created by the Congress to promote and assist socially and economically disadvantaged individuals in gaining access to the resources necessary to develop small businesses, and thereby improve their ability to compete on an equal basis in the mainstream of the American economy. SBA fulfills this mission through national programs that provide marketing, managerial, technical, and procurement assistance to eligible businesses that help them achieve their competitive potential. These programs are managed at the national level by the Office of Minority Enterprise Development, and delivered at the local level through our network of district offices and resource partners.

Under Section 8(a) of the Small Business Act, SBA provides access to sole source and limited competition Federal contract opportunities to eligible firms over a nine-year program participation term. Since the inception of the 8(a) program in 1968, approximately 511,000 contract actions worth approximately \$82.2 billion have been made. While these figures represent a small percentage of total Federal procurement actions and dollars, they still represent significant success in including targeted businesses in the Federal market. This success has significantly enhanced participants' ability to compete in the commercial market.

Over its 31-year history, the 8(a) program has made it possible for many minority entrepreneurs to enter the Federal marketplace. The program is not a government "handout" or "giveaway." It is a means by which qualified businesses have provided goods and services that have met or exceeded market standards and agencies' needs.

Protecting and Strengthening the 8(a) Program

Pursuant to the 1995 Supreme Court decision Adarand v. Peña, SBA has taken necessary and reasonable actions to ensure that the 8(a) business development program is narrowly tailored to the developmental needs of small disadvantaged businesses. In 1998, SBA issued regulatory changes to strengthen and improve the 8(a) program. These changes act as a check and balance of business development opportunities, and therefore require SBA to monitor the contracting activity of 8(a) firms. For example, SBA regulations require a specific business mix formula for firms in the transitional stage of program activity, and provide for early graduation and sole source limitations for very successful firms.

At the same, SBA is reinventing how 8(a) firms receive contracting business development assistance. For example, SBA allows successful firms (either small or large) to "partner" with new 8(a) firms through a mentor-protégé relationship. The new regulations also increased small business access to federal contracting opportunities by making it easier for firms to affiliate and compete for large contracts. In addition, the changes provided for more equitable distribution of contracts by imposing stronger competitive mix requirements and restrictions on sole source contracts.

In 1998, SBA took a major step in improving the program by delegating 8(a) contracting authority to substantially all Federal acquisition agencies. This allowed SBA to eliminate any unnecessary time-consuming district office intervention in the acquisition process. By streamlining the 8(a) contracting process, we have made the program more timely and efficient, increasing its attractiveness as a contracting vehicle for procuring agencies.

While these changes to the 8(a) program were significant, other changes in Federal procurement environment have made it easier for contracting officials to buy goods and services more quickly and efficiently under a variety of new acquisition

mechanisms. Procurement reform has transformed the Federal government's \$200 billion a year acquisition system and dramatically changed the way the government buys its goods and services. In today's dynamic procurement environment, as agencies downsize due to budget cuts and streamline procurement processes, we have seen an increase in contract bundling and the use of Multiple Award Contracts, Government-Wide Acquisition Contracts (GWACs), Federal Supply Schedules, and credit card purchases. Before I discuss the steps we are taking to increase opportunities for 8(a) firms, let me place levels of 8(a) contracting activity in perspective.

The total value of Federal procurements has been relatively stable over the last decade, increasing from \$191.2 billion in FY 1990, to \$198.8 billion in FY 1999. In the same period, 8(a) contract awards increased 81.5%, from \$3.4 billion to \$6.2 billion. In relative terms, 8(a) awards increased from 1.8 % of total procurements in FY 1990, to 3.1% in 1999. In the post acquisition reform environment, the impact of changes in the marketplace upon 8(a) firms becomes clear. For example, 8(a) awards declined from \$6.4 billion or 3.2% of total procurements of \$197.6 billion in FY 1996, to \$6.2 billion, or 3.1% of total procurements in FY 1999.

We believe that providing contract assistance is an essential component of the business development services that we provide to 8(a) firms. The GAO survey confirms this in finding that 86 percent of the firms joined the program to obtain 8(a) contracts, while 22 percent joined to learn more about management.

The SBA is taking steps to further improve the 8(a) program in order to increase contracting opportunities for 8(a) firms. In June, SBA entered into a Memorandum of Understanding with the General Services Administration (GSA) that allows for blanket acceptance of the GSA's Multiple Award Schedules Program under the 8(a) program. This blanket acceptance provides for a streamlined approach for agencies to award orders to 8(a) firms under the schedules program. Agencies will also be allowed to take credit for orders to 8(a) firms towards their 8(a) goals. This action, and others like it, will increase 8(a) firms' access to opportunities in Federal procurement.

We are aggressively marketing the 8(a) mentor-protégé program. Through this program, 8(a) firms can enter into strategic alliances that enable them to compete more successfully for larger requirements than they could on their own. To date, we have approved 60 mentor-protégé agreements that will provide contracting opportunities for 8(a) firms.

In addition to improving the 8(a) program, we are simplifying the application process. Specifically, we are developing a combined 8(a)/small disadvantaged business (SDB) application to make it easier for firms to apply for the 8(a) and small disadvantaged business programs. We plan to automate the application and include a decision support module that will allow for approval on-line over the Internet. This will be implemented in accordance with a strategic information technology plan for our procurement assistance programs that we are now developing, as noted previously.

Tracking Assistance Provided to 8(a) Firms

The GAO report states that SBA remains unable to track technical assistance provided to firms. SBA developed and pilot tested a Business Assessment Tool (BAT) in 1998 and 1999. The BAT is a software tool that includes a series of questions to help district offices assess the technical assistance requirements of 8(a) firms in the developmental stage. We are now assessing the outcome of the pilot test to determine if the tool should be used to determine business development requirements, and to track the assistance provided to 8(a) firms. There is no question on the part of GAO or SBA that we must make significant improvements in this area.

SBA is embarking on an agency-wide systems modernization initiative to re-engineer its business processes to better service its customers. We have begun the planning for the re-engineering of the systems that support the 8(a) program, including the need to develop a system to track the assistance provided to our 8(a) firms. This is part of Phase III, which addresses entrepreneurial development and procurement assistance.

Measuring Program Performance

The GAO notes that SBA changed its program performance goals for the 8(a) program in its FY 2001 Annual Performance Plan to focus more on the business development. The GAO audit indicates that this is an output rather than an outcome measure and is weaker than the previous measure. Up until the current performance plan, SBA measured 8(a) program success solely in terms of the number of 8(a) firms that continued business operation 3 years after leaving the program. It should be understood that 15 U.S.C. § 636(j)(16)(B)(iii) requires that we include such information in an annual report to Congress. This requirement is codified in SBA's regulations at 13 C.F.R. 124.603. It is notable that in our FY 2000 Annual Performance Plan we had established a goal of 50% for this measure. In fact, we realized a success rate of 52% for firms exiting the program in the period FY 1997 - FY 1999, and a rate of 63% for firms exiting the program in FY 1999. By statute and regulation, we must continue to collect and report this information.

With our FY 2001 Annual Performance Plan we have strengthened, not diluted, the tools by which we judge 8(a) program success. We have added a second measure to focus on business development. We also define program success as the number of 8(a) firms that complete the 9-year program term and receive business development assistance, including both management and contracting assistance. The two measures, one dictated by statute and regulations, the other included in our Annual Performance Plan, when taken together, will help us better assess the overall 8(a) program performance.

Reassess Use of 7(j) Funding

Under section 7(j) Management and Technical Assistance Program, SBA provides management and technical assistance to socially and economically disadvantaged individuals and businesses, both 8(a) and non-8 (a); in areas of high unemployment or in areas with a high concentration of low-income individuals. Participants in the 8(a) program comprise the largest percentage of 7(j) program users. SBA awards cooperative agreements to both public and private organizations for the delivery of program services.

As indicated in the GAO report, funding for the 7(j) program, our primary source of funding for technical assistance and training of 8(a) firms, has decreased significantly over the last 10 years. The funding from fiscal years 1990 through 1995 averaged approximately \$8.4 million per year. From fiscal years 1996 through 1999, funding for 7(j) averaged about \$2.8 million per year, well below SBA's budget request. Because of the decreased funding, we have been unable to provide technical assistance and training to many 8(a) firms.

The majority of the funding has been used to support our Executive Education Program, which services only a limited number of program participants. We agree that we should enhance the training component of the 7(j) program to focus on both management and contracting assistance. However, due to budget constraints, we have been unable to provide a broad spectrum of tailored management and technical assistance to 8(a) firms. For example, we have been unable to implement a program that would provide year round training to more 8(a) participants.

We agree with the GAO that continuous assessment of the needs of 8(a) program participants is essential to determining what types of management and technical assistance we offer under 7(j) authority. When the GAO review began, SBA was designing a survey instrument for the 8(a) program that would be administered to our district office managers and 8(a) program staff and to 8(a) firms. Due to budget constraints, we elected to delay issuance of our survey to 8(a) firms. However, during the next fiscal year, we will reconsider this survey to help us assess the deployment of 7(j) resources. We are not satisfied with our efforts in this area and agree with GAO that much more needs to be done.

Information Technology Management at SBA

For more than four years, even with lean budgets and the compelling urgency of the national Year 2000 conversion effort, SBA has been steadily on the path to modernizing its information technology systems and decision support processes. While much remains to be done, the Agency has been busy and productive in the information technology arena.

Since Systems Modernization is so critical to SBA's success over the next several years, I would like to expand on this subject for a moment. Systems modernization is a key success factor for SBA in the 21st century—an agency that delivers sophisticated,

efficient, and cost-effective services to small business customers and to SBA's lending and other resource partners. The SBA vision statement reflects the commitment to provide:

- Cross-functional products and delivery systems;
- Customer-oriented programs to resource partners;
- An agency without barriers providing products to customers 24 hours per day, 7 days per week, from various sources; and
- A highly trained and motivated staff.

In order to implement this modernization plan, the SBA is committed to investing the necessary resources into the development of improved business processes and supporting information technology (IT) systems. As part of this objective, SBA is determined to manage itself to the highest industry standards for internal controls, risk management, and oversight.

To achieve these standards, SBA has embarked upon a multi-year systems modernization project, called the SMI. SBA has elected to divide SMI into three overlapping phases:

- Phase I -- Loan monitoring and lender oversight
- Phase II -- Financial management and disaster lending
- Phase III -- Government contracting, business development administrative systems, Small Business Investment Companies (SBIC), and Surety Guarantee Systems.

To effectively manage this complex transition, and ensure that the resources this effort will take are properly planned and controlled, SBA has been working to improve its IT investment management and control processes, in accordance with the Clinger-Cohen Act. The Agency established its IT capital planning review body, the Business Technology Investment Council (BTIC) in May 1997, shortly after passage of the Clinger-Cohen Act. The Council, chaired by SBA's Chief Information Officer, is comprised of the Deputy Administrator, the Chief Operating Officer, Chief Financial Officer, the General Counsel, SBA's Chief Acquisition Officer, all four Associate Deputy Administrators and two District Directors. The Council has met regularly since then and is now playing an active role in reviewing proposed IT projects and controlling costs by insisting on the necessary levels of planning before making investments. We recently provided additional contract resources in this area to fully document our IT investment management and control processes.

We appreciate GAO's time and effort in reviewing our management of IT and we believe that their recommendations will help us continue to develop our capabilities in this area.

GAO examined SBA's overall management of information technology (IT) in five key areas: IT Investment Management, IT Architecture, IT Software Development & Acquisition, Information Security and IT Human Capital Management. After commenting on the first draft of their report, SBA largely concurred with GAO's findings and recommendations.

Since late 1996 Congress, GAO and OMB have focused attention on how agencies manage and control their major investments in information technology. The Clinger-Cohen Act of 1996 set new requirements for agencies to follow in this area. SBA has been adapting to these new rules, but not at the rate we hoped to achieve. Year 2000 conversion, for example, had to be a priority effort for much of 1998 and 1999, and resource constraints have also held us back.

Overall, GAO acknowledged that SBA's intentions are good and that we have a good understanding of what needs to be done to sustain and improve our management of information technology. Our internal policies, procedures and enforcement tools need to be formally established. It is these administrative and documentation functions that have been most affected by resource constraints within the Agency at large.

IT Investment Management

Investment management is an integrated approach that provides for the management of IT projects and investments over their entire life-cycle. The investment management process requires that agencies address three key functions: how projects are selected, how they are controlled for cost and performance, and how they are evaluated afterward to assess their relative success. GAO determined that while SBA understands these processes and has made some progress in the selection and control areas, the Agency needs to establish policies and procedures that fully spell out how SBA will *select, control and evaluate* its major IT investments. In some of the projects GAO reviewed, earlier analysis was needed to show the costs, benefits and risks of proposed projects and their alternatives.

SBA awarded a contract in June to Booz Allen & Hamilton, a firm with recognized expertise in this area, to help us document and institutionalize our IT capital planning process. The contractor will also conduct training for SBA program managers in IT capital planning principles. We will have our internal IT capital planning process fully documented by December 2000.

SBA is treating its most significant IT investments, the Systems Modernization Initiative (SMI), which includes the Loan Monitoring System, as a model of how IT capital planning and implementation should be conducted within the Agency. All SMI projects are fully documented in accordance with SBA's new System Development Methodology, acquisition planning is performed for each. Investment control reports are provided to the BTIC at each meeting.

To date, the Agency has spent over \$2 million supporting the necessary planning and project management activities related to SMI. We believe that these early investments will help minimize risk and ensure the soundness of our SMI projects as they continue into development and operations.

Information Technology Architecture (ITA)

An IT Architecture is a complex "blueprint" that defines the relationships among an organization's business processes, data needs and information systems. The ITA is not static; it evolves over time and guides how the Agency buys and develops IT systems according to technical industry standards, and maintains alignment between systems and the agency's missions. GAO acknowledged that SBA had developed its ITA, but recommended that we establish procedures to ensure that our ITA is properly maintained and developed over time.

SBA has developed its ITA based on an accepted industry model. GAO has indicated that SBA's ITA meets current standards and that we are one of only a few agencies of our size to have developed an ITA. From GAO's report:

"...SBA has made progress with its target IT Architecture by describing its core business processes, describing data maintenance and data usage, identifying standards that support information transfer and processing, and establishing guidelines to migrate current applications to the planned environment."

SBA will implement full ITA maintenance on October 1, 2000. Key features will cover "change management" to ensure compatibility between systems, and security standards encompassing hardware, software and communications.

We have also hired a Quality Assurance Manager and will be selecting an IT Architecture Manager by August 15, 2000.

To help ensure the operational future of the systems we are planning for development, we will use the technical evolution path described in our IT Architecture to develop our IT office automation initiative, the "seat management" proposal.

IT Software Development and Acquisition

To provide the software to support its operations, agencies have two choices: they can develop software using their own staff or they can acquire software and services through contractors. Because SBA is a smaller agency, we should be perfecting our skills as a software *acquisition* agency, rather than a software *development* organization. To manage software acquisition processes, agencies need to establish policies and procedures and assign responsibilities for how they will do this technically demanding work. To be successful, an agency needs specialized and well-defined software acquisition processes, with supporting methods and standards that define its particular rules. Key processes that must be covered to be successful include requirements

management, project planning, acquisition planning and contract management, project tracking and oversight, quality assurance, and configuration management. GAO recommended that SBA complete its Systems Development Methodology (SDM) -- which will be our repository for many of these technical requirements-- and establish and enforce solid procedures for developing and acquiring software through under federal contracting methods.

The most commonly acknowledged standard for assessing an organization's software management capability is the Software Engineering Institute's Capability Maturity Model developed at Carnegie-Mellon University. Under this model organizations can judge the maturity of their processes and understand the key processes they need to develop to attain the next higher capability level. There are five of these "CMM" capability levels and SBA, like most agencies is at the first level (CMM Level 1). Our goal is to attain CMM Level 2 -- which means our key software rules and processes are fully documented and repeatable--within two years.

SBA's Inspector General has audited the SDM, found it to meet current standards, and requested only minor changes. The proposed SDM is now being used on a daily basis to govern software processes in the proposed Loan Monitoring System project. The OCIO is committed to attaining Level 2 of the Software Engineering Institute's Capability Maturity Model for Organizations (SEI-CMM Level 2) by Fiscal Year 2002, resources permitting. Achieving a SEI-CMM Level 2 rating requires a well-planned and sustained investment in time, budget, staff and training over 2 to 3 years.

IT Security

Information security covers the ways an organization protects its computer supported resources and assets. Such protection -- which is largely the outgrowth of technical tools and organizational practices -- ensures the integrity, confidentiality, and availability of the data and systems within an organization. Integrity ensures that data have not been altered or destroyed unless authorized. Confidentiality means that information is not made available or disclosed to unauthorized sources. Availability means that data will be accessible or usable upon demand by those with authorization. Key IT security processes include risk assessment, user awareness, controls, evaluation, and central management. GAO recommended that SBA finalize its IT security policies and procedures, and establish regular risk assessments of our key systems.

SBA understands how important IT security is, and how critical it will become in the future as we enter the era of e-government. We have increased our resources for IT security by hiring five additional internal staff, and we've allocated over \$800,000 in additional contractor support to conduct needed security reviews. Our IT security reviews are prioritized and we have accomplished 4 of the 5 most critical reviews.

We are developing comprehensive disaster recovery plans for the Agency and have a prototype recovery plan that will be in place for each SBA office nationwide by December 1, 2000.

To raise IT security consciousness, we have developed a self-paced security awareness training course based on NIST (National Institute of Standards and Technology) guidelines. We will make this training available to all employees on the Agency's Intranet in early September.

Our revised and updated IT security SOP has been issued and posted on SBA's internal web site. Mandatory security reviews will be included for all projects that are developed under our new IT capital planning and investment control procedures.

IT Human Capital Management

The concept of human capital centers on viewing people as assets whose value to an organization can be enhanced through investment, thereby increasing the performance capability of the organization and its value to customers and other stakeholders. IT human capital management is a particular concern right now in the federal sector because of the pervasive competition among all public and private organizations for skilled IT persons. GAO recommended we establish a process for identifying SBA's IT knowledge and skills requirements, update that information periodically, and develop workforce plans to acquire, develop and maintain these critical IT skills to fill known gaps.

We are developing the specifications for a contract that we expect to award within the next 30 days to perform the specialized, repeatable IT skills survey to support Clinger-Cohen Act requirements. It will cover managers, dedicated IT staff and IT support staff in all SBA offices.

Under SBA's workforce transformation project we are also planning a measured re-organization of our OCIO organization to achieve the functions that GAO has recommended we strengthen.

We also plan to add an IT skills assessment factor in the IT capital planning and investment control processes we are developing.

For FY 2001, our CIO has developed a training request that aims to fill the most urgent of our skills gaps, and which will better prepare us to manage the systems that are under development.

We appreciate the work GAO has done with us and the recommendations they have developed. We also understand that the overall effort to improve the management of information technology at SBA will demand a commitment of resources and effort over many months. We intend to make that commitment and achieve consistently better performance in this critical arena, since no agency can lay claim to superior performance on behalf of the public unless it manages information technology consistently and well.

SBA Human Capital

In the past two and one-half years, SBA has discussed the content and format of the SBA Five Year Strategic Plan with staff from Congressional committees, Office of Management and Budget (OMB), Government Accounting Office (GAO), small business and our own Small Business Administration (SBA) staff. The result is a comprehensive shared vision of small business goals that are: outcome oriented, more clearly linked to our strategies and the activities, and linked to the management challenges. This effort has established two overarching strategic goals which encompass four modernization strategies:

Shared Vision

Strategic Goals

- Help small businesses succeed, particularly the New Markets segments, through fair and equitable access to (1) capital and credit, (2) Government contracts, (3) business development, and (4) serve as a voice for small businesses; and
- Help Americans recover from natural disaster, through needed capital and credit.

Modernization Strategies

- Ensure effective internal control and oversight, both internally and externally
- Modernize Information Systems
- Expand use of e-commerce
- Transform SBA's workforce into the 21st century –

The strategy of transforming the SBA has begun by transitioning its employees from making and servicing loans to primarily reaching out to new markets and overseeing its private sector partners. Second, SBA has begun to take steps for better managing its human capital activities, such as undertaking workforce planning activities, including developing competency models and related training for some core functions and realigning and deploying staff. However, more remains to be done. We do need to continue and complete our processes that include:

- Conserve and Reinvest in Human Capital – developing a succession plan for senior leaders and reinstating candidate development programs for these leaders

- Right Size the Organization - estimating the number of employees who will be needed with certain skills
- Train as We Go - ensure that employees receive adequate training to perform their jobs well.

Changes at SBA

Historically, SBA has provided four types of service to the small business community: credit/capital assistance (including disaster lending), procurement and government contracting help, business development, and advocacy. Today, these products and services continue, but, in addition, the Agency functions as a voice for small business in the face of macro-economic changes and globalization of markets. Most importantly, SBA continues ensuring fairness and equity of access for ALL small business.

Therefore, SBA has changed the way it delivers services, centralizing processing while decentralizing customer relations. Responding to the Administration's initiative to "work better and cost less," the SBA has already made large strides to modernize the agency through several initiatives including, centralization, asset sales, privatization, partnerships, and automation. In order to implement these initiatives, SBA is transforming the emphasis in business operations to outreach, marketing, management and oversight of partnerships, outsourcing and privatization efforts. This new direction, which more closely mirrors the lending operations in the private sector, requires the transformation of human resources to new areas of business.

The traditional methods of doing business within the Small Business Administration are also undergoing change. A new technology infrastructure is being implemented to facilitate the rapid exchange of information related to most aspects of our business. The systems modernization efforts underway will radically change the way we conduct business in the future as the need for processing and filing of paper is reduced. This evolution of modernization requires changes to employee tasks and will provide new opportunities for employees to expand their skills and capabilities.

The introduction of changes in business practices necessarily brings numerous changes in the requirements for personal skill sets. We find the new functions generally require a different emphasis on skill needed by personnel currently involved in the business. Many of our employees find that they are already performing some of the new functions. The Agency is committed to assisting everyone during this period of transformation and has worked in partnership with the Union to develop our Work Force Transformation (WFT) Strategy.

Focus of SBA Work Force Transformation Efforts

SBA has actively engaged all levels of management and supervision in the development and execution of its comprehensive WFT Strategy. Embarking on a seven step process, SBA's staff in Headquarters, the Centers, the Districts, and the Disaster area offices are involved.

The conservation and enhancement of our human capital remains the primary goal as we move forward improving the quality of our services and growing the size of the small business community.

Many government organizations are reviewing their human capital strategies, including the GAO. In many respects, SBA is similar to GAO (e.g., size, reduction in staff resources over a relatively short time frame, customer driven). SBA's WFT effort is also at approximately the same stage as GAO's. We, therefore, will continue to work with GAO's senior human capital experts as we go through this transformation process.

Mr. Chairman, I have described the many accomplishments of my agency. Like the Comptroller General, I agree that our human capital is our greatest asset and the one in which we must invest more and more resources.

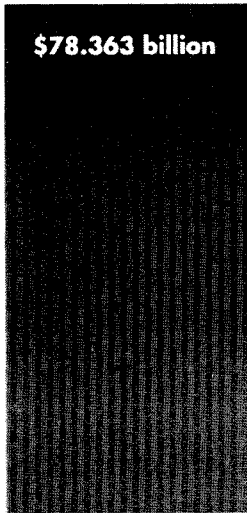
I appreciate the opportunity to describe our progress, and appreciate all the assistance and guidance GAO's senior experts have provided. I look forward to continued progress for America's small business owners – with GAO's assistance and that of this Committee.



Loan Activity

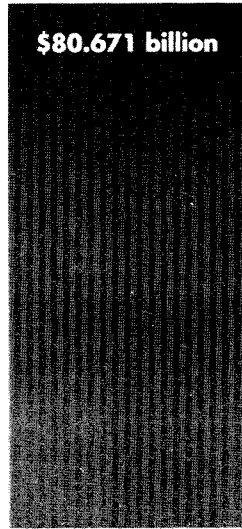
More than the previous
39 years combined

\$78.363 billion



1953 - 1992

\$80.671 billion

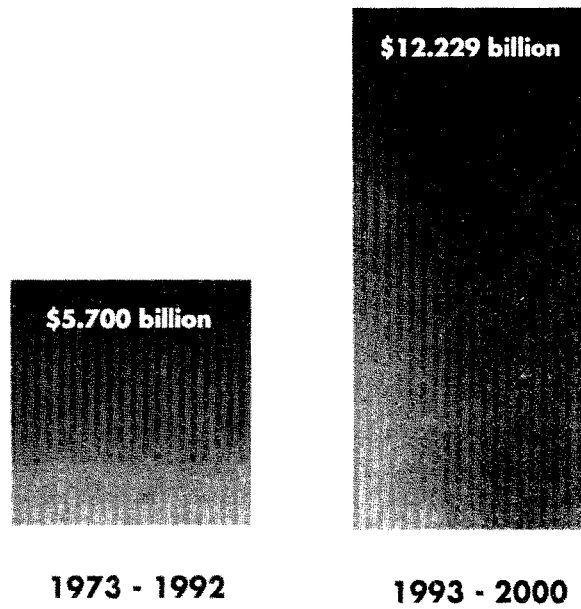


1993 - 2000



Loans to Women

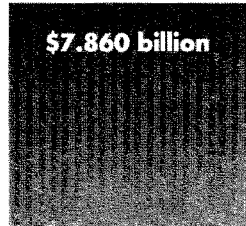
More than double
the previous 19 years combined



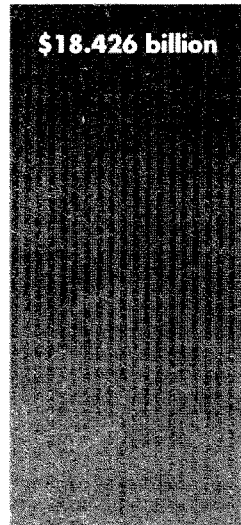


Loans to Minorities

More than double
the previous 39 years combined



1953 - 1992



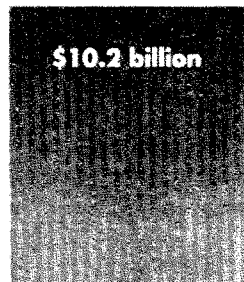
1993 - 2000



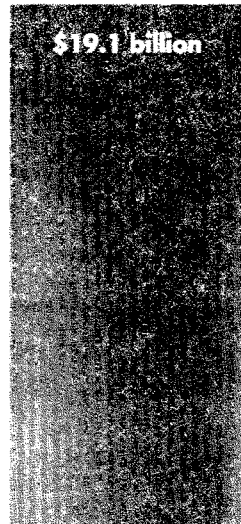
Venture Capital Dollars to Small Business

Small Business Investment Company Program

Nearly double the
previous 35 years combined



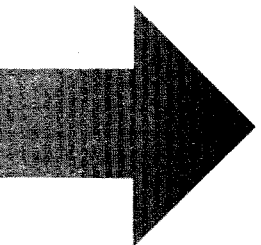
1958 - 1992



1993 - 2000

SBA U.S. Small Business Administration **Small Business Investment Companies**
Profit to the Taxpayer

\$224 million to the Treasury

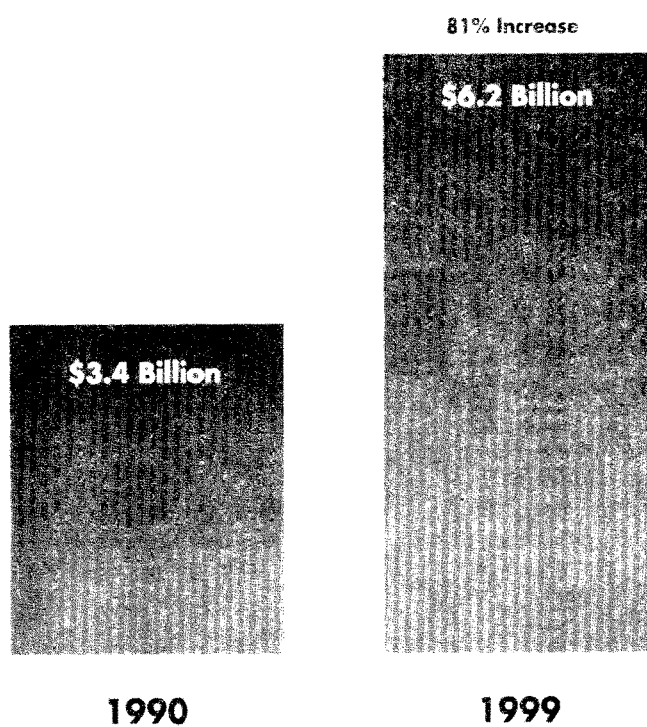


1995 - 2000

Participating Securities Program

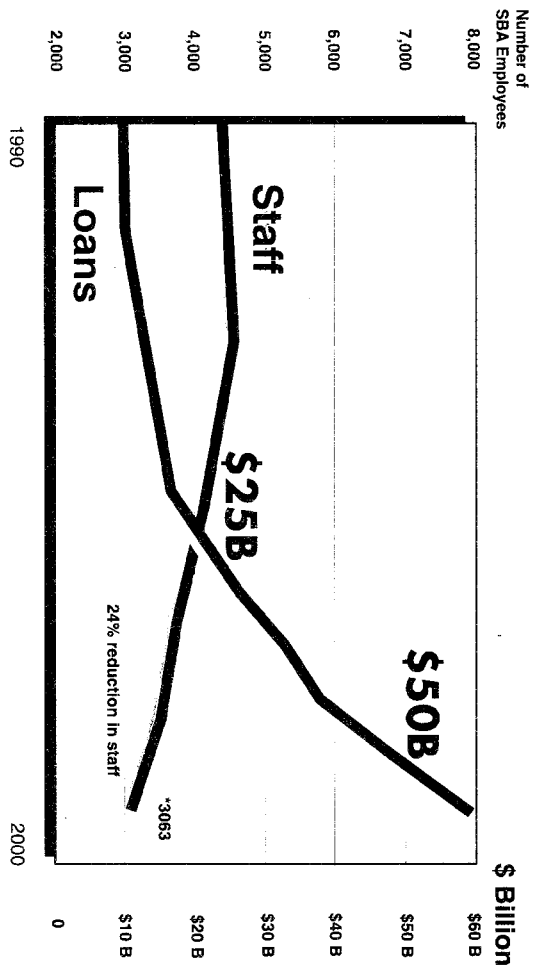


8(a) Contract Awards



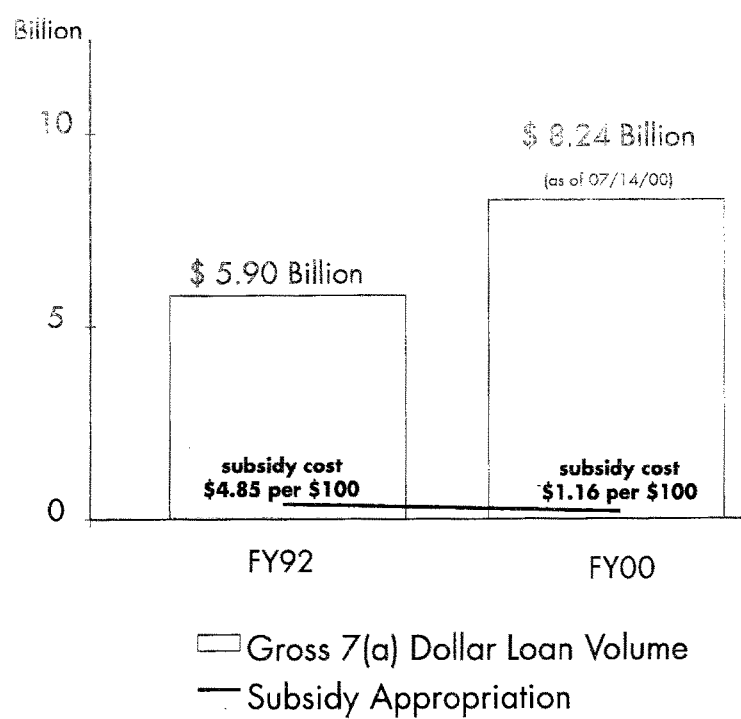


Doing More With Less





Providing More Loans — at Less Cost to the Taxpayer



07/20/00



Using New Technologies

SBA Web Site Report Card		
Grade	Award	Comment
A	Forbes Best of the Web-2000	Red tape cutter ... great information ... helps to navigate the muddy waters of bureaucracy
A	Building Caring Communities Excellence Award-April 2000	Well designed site
A	Web Feet Seal of Approval	SBA site will appear in Web Feet, the Internet traveler's desk reference
A	GovExec Best Feds Award	technological know-how and customer service are what really counts
A	GovSpotSpotlight Award	(one of) the best government Web sites
A	Links2Go Key Award	Most representative
A	Eagle Award for Excellence on the Net	A must for small business
A	Starting Page Top 2000	Truly the Best of the Web
A	Lycos Top 5%	Solid Web site
A	Virtuocity Select Site	Best Site for Small Businesses
A	Microsoft's Hand Picked Award	Best of Business Webs '97 and '98
A	Windows Magazine's 101 Best Business Sites	You'll find a wealth of information
A	Yahoo!'s Best Sites of '98	Every would-be entrepreneur should be aware
A	Forbe's Favorite Web Sites	A treasure trove of valuable leads and resources

- There are 9.5 million weekly hits to SBA Web site

07/20/00



Four Clean Audit Opinions



FY 96



FY 97



FY 98



FY 99

Chairman BOND. Let me turn to the question of appropriations. Looking at the chart, you mentioned that additional funds are needed in a number of areas. As I look at a chart of the SBA's budget requests and the actual appropriation for 1997, 1998, and 1999, the appropriation was significantly larger in all 3 of those years. For the current year, there was a \$250 million, or a 33 percent increase, in the request. The actual appropriation was about \$100 million more than the previous year.

What we are concerned about is the SBA's priorities for spending the money. Why has the SBA not made effective program operation a priority? Part of the question the GAO raised was the allocation of resources. Are you allocating the resources that you get to these priority areas?

Ms. ALVAREZ. Absolutely. I think our budget and the budget request fully reflect the priorities of the Agency. We carefully monitor our fiscal resources to ensure that these funds are going to those priorities.

There are some key areas that have been looked at by the GAO where we have made budget requests. We are fearful that, based on history, when funding was not forthcoming, that going forward, the funding will not be forthcoming as well. For example, we requested money for, it is a technical term, seat management in the information technology area. We have outdated computers and we have requested \$7 million to purchase replacement computers and the necessary infrastructure. We cannot go forward and implement plans without the appropriate computers, but so far, we have zero coming from the deliberations about our budget.

In the area of workforce transformation, last year, we requested \$5 million to allow us to support transformation requiring training. It is expensive, and we requested \$5 million. We got zero. This year, we requested \$4 million. It looks like we will receive zero.

In the 7(j) program, which is very important to the development of 8(a) companies, we have consistently asked for funding and have gotten a fraction of what we requested. We are hopeful, since I see that we requested \$5 million and it looks like the Senate is being responsive and we really appreciate it. We need the money if we are going to provide the kind of technical assistance and training that these 8(a) companies need. We cannot do what we need to do in 7(j) without the funding.

In the area of asset sales, I see that we have a funding request. We are very proud of our asset sales. There is going to be a \$1 billion asset sale taking place next week and this will be our second sale. Then there will be a third sale for approximately \$1 billion. We need money to make these things happen. We requested \$1.5 million. So far, zero is forthcoming.

So there are some key strategic areas that are tied to these GAO recommendations that require funding.

Chairman BOND. Let me just focus on one. The GAO talked about the concern by 8(a) firms on getting access to contracts. In light of the SBA argument that it quit tracking business development activities because of funding cuts, why does the SBA use the available 7(j) funds for executive training programs, which apparently are a much lower priority and benefit only a few select firms? Why doesn't the SBA use the funds for wider-ranging business de-

velopment tools that would help more 8(a) firms, especially those with limited management experience, in getting the contracts? It seems to me that this is one area where the GAO says, change the allocation of the funds you have.

Ms. ALVAREZ. Senator, there are lots of issues implicit in that question. First of all, the statute specifies that getting 8(a) certification does not guarantee contracts, and that is an up-front advisory.

Chairman BOND. No question about that.

Ms. ALVAREZ. We are aware that there is concentration in terms of 8(a) contracts for a variety of reasons. By the way, we delegated the decisionmaking on awarding of contracts to agencies. We do not make those awards. We did it because we wanted to speed up the process and get out of the way. So that decisionmaking rests with the individual agencies. We also issued regulations a few years ago that limited both the size and the number of contracts that could be awarded sole source, trying to address the concentration issue.

With respect to 7(j) funding, unfortunately, or fortunately, before we even start out, with the funding we do get, quite a bit of it already has been targeted for specific programs that various Members of Congress feel are important for their constituents. So we actually end up having about, I think it is, James, is it \$800,000? James, you may want to join me if we are going to talk about 8(a). About \$800,000 to serve the entire nation. The rest of it has been designated for programs in different parts of the country. So we really are very underfunded in that area.

Chairman BOND. Thank you, Ms. Alvarez.

Senator Kerry.

Senator KERRY. I think it is important to note that when we measure the budget and we talk about the request, the request is what the administration sends up.

Ms. ALVAREZ. Right.

Senator KERRY. But that is a request that has been pared and vetted and fundamentally decided upon by OMB in conjunction, obviously, with the White House. It almost never reflects what you have asked for from them, correct?

Ms. ALVAREZ. Yes, Sir.

Senator KERRY. So as you sit there and say, here is what I need to do my job, we are really living in this artificial world in Washington now. I mean, to a degree it is artificial. It is real because the numbers are real, the budget law is real, but Mr. Chairman, you and I were talking about this just coming back from the vote. You have got a budget allocation for VA-HUD that is literally impossible to live with and you are not going to report out a bill until you get more money.

She does not have that luxury. She is told by OMB, here is your budget. Operate. And that is the request that comes up here. Regrettably, it rarely reflects what is needed to do the job. Then we sit up here and we start beating away and saying, "Well, why can you not do this? Why do you not have that money?"

There is a total disconnect, frankly, and it is not just true of this. I find this in the Commerce Committee with the Transportation Department, with budgets for the Coast Guard. And the admirals all come up here and they are given marching orders over at the

Pentagon and they all have to look nice and feel nice and tell us wonderful things about the budget when they know damn well they cannot do the job with the budget. That is how it is working here in this city nowadays.

So it is terrific for the politicians who want to sit up here and say, "Well, you know, you are not living up to what the budget requires, but the fact is that we are all the victims of this system that nobody wants to break out of or challenge."

I have a simple question. It seems to me that there are some legitimate complaints, if you want to call them complaints, or legitimate observations by the GAO, but the question is, what does it take to respond to them? Do you have adequate capacity for information technology? Do you have enough people? I mean, you have just told me. It has gone down from what to what?

Ms. ALVAREZ. From 4,100 to 3,100.

Senator KERRY. From 4,100 to 3,100, so one-fourth reduction. So you have had a 25-percent reduction, and what is the increase in the amount of lending?

Ms. ALVAREZ. It is double the loan portfolio.

Senator KERRY. And what is the increase in the 8(a) program?

Ms. ALVAREZ. Eighty-one percent increase in the 8(a) program.

Senator KERRY. And yet we are supposed to go out and do all this measuring of all these people and take a survey. Can you take a survey today? Can you do that kind of work?

Mr. BALLENTINE. Yes, Sir.

Senator KERRY. You could do that? So you have enough people there to be able to do the kinds of analyses that have been recommended?

Mr. BALLENTINE. I will identify myself, Sir. My name is James Ballentine. I am Associate Deputy Administrator for Government Contracting, Minority Enterprise Development. We would be able to do a survey. It would be another responsibility of our business opportunity specialists, which GAO pointed out are already very much overworked. They would have to take a great deal of the work to carry out such a survey, but we could do it.

Senator KERRY. What suffers as a result, anything?

Mr. BALLENTINE. Well, obviously, they are very much overworked now. They do not have the resources to travel as we would like for them to. They obviously would not be able to do that. If they were provided those resources, they obviously could do it. But they also have regular annual reviews that they must do on their portfolio within a given area. For example, in the Washington, D.C. area, the portfolio is very large. If they were charged with another task, those annual reviews may suffer as a result.

Senator KERRY. So what you are saying is, physically, conceptually, you can do it, but it is going to be a hardship and something else is going to suffer as a result.

Mr. BALLENTINE. Exactly. Priorities must be put in place.

Senator KERRY. Given the current personnel levels.

Mr. BALLENTINE. That is correct.

Senator KERRY. Have you tried to do it? I mean, what steps have you taken? Would you perhaps state for the record what steps you have taken to strengthen the 8(a) program at this point?

Mr. BALLENTINE. We were actually in the process of doing a survey when the GAO came to the Agency, and we actually assisted the GAO in putting together their survey because we had begun the process to do one on our own. We have also, and the Administrator asked us to do this some months ago, to begin to look at really anything we could do to improve the 8(a) program. You must keep in mind that this program is 31 years old, and as Senator Bond has mentioned and as the GAO mentioned, as SBA is in transition, this program is in transition, as well.

Senator KERRY. It is my understanding that in 1995, you issued regulations to eliminate a loophole that allowed firms to circumvent the competitive threshold, right?

Mr. BALLENTINE. That is correct.

Senator KERRY. And in 1998, you delegated contracting authority to acquisition agencies to streamline the program.

Mr. BALLENTINE. That is correct.

Senator KERRY. And you revised the regulations to allow for better enforcement of companies' competitive business mix.

Mr. BALLENTINE. That is correct.

Senator KERRY. And you provided means for 8(a) firms to joint venture more easily.

Mr. BALLENTINE. Yes, Sir.

Senator KERRY. So you have actually been undertaking a series of steps.

Mr. BALLENTINE. We have been attempting to, and they have been very effective.

Senator KERRY. Are there more that you want to do?

Mr. BALLENTINE. We would love to do more, and we currently have a working group in-house and we are also working with several agencies to see how we can make the program work even better.

Senator KERRY. What is the restraint on your achieving—and I will make this the last question, the light is on—what is the restraint on achieving the legitimate observation of the GAO regarding the more contracting that they would like to do versus the management component? How do you respond to that?

Mr. BALLENTINE. The restraint is resources. It would also be a culture change, so to speak, for our business opportunity specialists. They currently provide annual reviews, as I said. They would need to be trained a little more on providing the type of procurement assistance that is needed.

Senator KERRY. Is there any reason not to do that?

Mr. BALLENTINE. No. I think it is a very good idea and we have agreed with GAO that this would be a better way to focus the 8(a) program. So we are in agreement on that, but we would need some training dollars for our business opportunity specialists who work hand-in-hand with the 8(a) companies.

Senator KERRY. Thank you, Mr. Chairman.

Chairman BOND. Thank you, Senator Kerry.

I believe that we heard from the GAO that there needs to be more emphasis put on business development for 8(a) and there ought to be travel funds, and that an allocation can be made within the budget for these areas.

We are going to be shutting down because there has been an objection to conducting hearings 2 hours after the Senate has come into session, so I am going to turn to Senator Enzi for the last series of questions.

Senator ENZI. We usually do not have enough time anyway, but I thank you for the opportunity to ask some questions. With the limited amount of time, I cannot dwell on the positive things, and I appreciate you having all of those in the report. I have to say that your charts that you presented are very impressive.

One of the things that GPRA concentrated on was outcomes instead of outputs, and I notice that most of the charts deal with outputs. Is there additional data that would show more closely how the outcomes fit with the PAR?

Ms. ALVAREZ. I am asking Kris Marcy, who is my Chief Operating Officer, to join me.

Senator ENZI. Sure.

Ms. MARCY. Actually, I think the charts do reflect some of the outcomes and really get at the heart of the Agency's mission. We are creating new businesses and supporting those new businesses, providing capital to those new businesses. We are providing technical assistance that allows those businesses to be created and developed and sustained. The Administrator spoke about the return to the taxpayer in terms of the SBIC program. So we have struggled very hard to show what we have been able to accomplish in GPRA terminology.

Ms. ALVAREZ. If I might be so bold, there have been studies that have shown we have 22-million new jobs in this country and there are studies that have shown that the majority of new jobs have been created by small business. I think that is a significant outcome that is the result of all of those, call them outputs if you will, but all of that in the aggregate is a reflection of the success that we are experiencing in this country. It contributes to the success that has led to a booming economy.

Senator ENZI. I would have to agree that those results are the outcomes, but the charts reflect the outputs, the number of loans, which does not translate directly on the charts to the number of jobs that are done.

Ms. ALVAREZ. Yes. I agree. We need another set of charts, but it would cut into our hearing time.

Senator ENZI. That is the part that I would really be interested in—

Ms. ALVAREZ. I agree.

Senator ENZI [continuing]. You know, the results that are out there, because we heard earlier today that these people expect to have more contract consultation, more help with getting that.

Ms. ALVAREZ. Yes.

Senator ENZI. The number of reports that are filed by those businesses do not demonstrate that—

Ms. ALVAREZ. I totally agree with you, Sir.

Senator ENZI [continuing]. And so it is probably selling your employees short, and that is why I wanted to make a point out of that.

Ms. ALVAREZ. I agree.

Senator ENZI. On your website, you are to be congratulated for that.

Ms. ALVAREZ. Thank you.

Senator ENZI. There have been a lot of plaudits for it. I did not notice anything on there about security, though, and as one of the computer buffs around here—

Ms. ALVAREZ. Oh, yes. That is a key issue—

Senator ENZI [continuing]. I noted that you had been hacked and wondered if there was something being done on that.

Ms. ALVAREZ. Yes, absolutely, and I would be happy to address that, if you are interested. Larry Barrett, who is our Chief Information Officer, could add to my comments. Information security is a top priority for us. We have actually not only hired about 11 people—Larry, would you like to come up here? I am sorry, six people, as well as invested \$800,000 in a contract with top specialists who are looking at five key systems, and we are close to completion of the review of those systems. Larry, would you want to comment?

Senator ENZI. I do not have much time here. I did notice that you are given some credit in those charts, and I have to agree with you that the pie chart could have some additional things done with it that would be more definitive on what has been done. But it was the management side that I looked at in the information technology and noticed that all the circles were blank.

Ms. ALVAREZ. We hope to have them all filled in soon.

Senator ENZI. We appreciate that. I would appreciate more information on—

Ms. ALVAREZ. There is a lot in progress there.

Senator ENZI [continuing]. On how that will be done.

Ms. ALVAREZ. Yes.

Senator ENZI. Just a final comment. Something else that I have been interested in that did not show up in any of these reports, of course, is the SBIR rural outreach program. I noticed that it was not funded in the 2001 budget and this is something that is very important to the rural places, particularly where I am from—

Ms. ALVAREZ. Absolutely.

Senator ENZI [continuing]. And I am hoping that something can be done to reinstate that so that the good work that was started that has a lot of outcomes can continue to happen.

Ms. ALVAREZ. I would be pleased to have Art Collins brief your staff, and I would be pleased to do it myself, to tell you what we have been doing in the area of rural initiatives, because we have spent a lot of time in this area. We are very acutely aware of the needs. And we consider the Rural Initiatives part of the New Markets initiative.

Senator ENZI. I would appreciate the briefing of my staff and myself.

Ms. ALVAREZ. We would be happy to do that. We would like to do that.

Senator ENZI. We want to be sure that rural is rural, and we have a little different sense of rural in Wyoming than most places have.

Ms. ALVAREZ. Exactly.

Senator ENZI. I thank you for being here today and taking our questions.

Ms. ALVAREZ. Thank you, Sir.

Senator ENZI. Thank you, Mr. Chairman.

Chairman BOND. Thank you very much, Mr. Enzi. When it comes to rural, Missouri probably qualifies as rural in SBIR program, as well, and certainly supporting and sustaining the SBIR program is not something that depends upon additional legislation. We expect that the SBA will put the emphasis on it and we are working on a good SBIR reauthorization bill that we think will provide additional tools, but there is no reason to wait for that legislation to get the job done and we look forward to working with you to do that.

Ms. ALVAREZ. Yes, Sir.

Chairman BOND. My thanks, Madam Administrator, to you and your people for being with us today. This has been a long process, but I trust it has been a productive process. We have heard encouraging words from GAO and certainly from the SBA on your accomplishments. I want to thank General Walker for his leadership, Stan Czerwinski, Michael Brostek, Joel Willemssen, and Susan Campbell for their good work from the GAO.

There are problems, no question about it. I am glad to say that the GAO reports that SBA is working with them to utilize the information available. This information is helpful to us in the oversight sense, but we are not driving the bus. You are driving the bus and this information should be very helpful to you.

We had many of these same discussions at our hearing on the SBA budget proposal last February. We stressed then the importance of SBA placing priority on ensuring that core programs are running efficiently and effectively, and again, we heard from the GAO that it is a question of assigning priorities and making sure that instead of creating new programs or embellishing in low-priority areas, that the Agency focus the resources it has, whether bountiful or scarce, on the programs that are important.

We trust that with the benefit of the PAR review, SBA can move toward the goal of being a model executive agency, and I think if you are able to implement the recommendations, it will be an important step toward the goal. We are going to be following with you the progress that you make carrying out the PAR and working with GAO, and as Senator Enzi has asked, we will look for the Inspector General to answer the questions regarding the reserve account by the week of August 7.

We thank all of you.

Ms. ALVAREZ. Mr. Chairman, if I may—

Chairman BOND. Yes, Ma'am.

Ms. ALVAREZ. I just want to thank you and your colleagues for your help in improving the SBA, both through legislative changes and oversight. I do believe that when I tout the record of the SBA over the past decade, that it is a record of shared success and I think that the work that has been done under your leadership has meant a great deal to our continuing to improve what we have to offer the American people. So I just want to thank you.

Chairman BOND. We appreciate your testimony. We are always delighted to hear the head of an agency be able to tout the successes. I will have to say that your predecessors were some of the greatest touters I have ever seen.

[Laughter.]

Ms. ALVAREZ. I will tell them you said that.

Chairman BOND. You tell the Ambassador I said that.

Ms. ALVAREZ. I will tell the Ambassador.

[Laughter.]

Chairman BOND. I am from Missouri and I need to be shown.

So with that, the hearing is adjourned.

Ms. ALVAREZ. Thank you.

Chairman BOND. Thank you very much.

[Whereupon, at 11:43 a.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Post-hearing Questions posed by Senator Christopher S. Bond, Chairman
Senate Committee on Small Business
To the Honorable Aida Alvarez, Administrator
Small Business Administration, Washington, D.C.
Hearing on
“GAO’s Performance and Accountability Review: Is the SBA on PAR?”

July 20, 2000

8(a) Program

- (1) **The SBA wrote the regulations regarding the 8(a) program and drafted the MOUs with the agencies that now handle the 8(a) contracts directly with 8(a) firms. Why can’t the agency enforce these documents to ensure that the SBA receives the proper data from the agencies on 8(a) contracting?**

We are enforcing the MOUs. While SBA has experienced problems with receiving quarterly reports from the agencies under the original MOUs, we have taken steps to rectify those problems by negotiating uniform MOUs with the 28 agencies. We are executing these MOUs at the highest level of authority within each agency. This provides increased visibility and accountability. Further, instead of quarterly reports, the agencies are now required to submit a copy of the executed 8(a) contract to the district office that services the 8(a) firm. We are now using the Federal Procurement Data System (FPDS), the government’s official database of information on Federal contracting, to track 8(a) contract activity under the program. Moreover, SBA began using FPDS data to prepare its FY 99 report to Congress on the 8(a) Program.

- (2) **I am concerned that the SBA has been unable to improve the 8(a) program despite the findings of years of GAO and Inspector General reviews. Meanwhile, the 8(a) firms are not getting the help they need. What can we do to help you turn this program into one that meets its mission?**

In FY 1999, contract opportunities in the 8(a) program declined from \$6.5 billion to \$6.2 billion, which represents a \$300 million decrease over the previous year. All indications are that the decline will continue unless SBA reforms the contracting process for the 8(a) program. SBA’s Office of Government Contracting and Minority Enterprise Development examined the 8(a) contracting process and made recommendations to increase contract dollars and reverse this trend in the 8(a) program.

We identified several areas to streamline the contracting process and improve the overall program. They include, among others, delegating offer and acceptance, eliminating the limitations on subcontracting, restructuring the 8(a) business mix, changing the criteria for program entry, eliminating the waiver requirement under the non-manufacturer rule, and changing the criteria for economic disadvantage.

Specifically, the Administration is considering increasing the sole source threshold, implementing a government-wide mentor protégé program and delegating offer and acceptance to the procuring agencies. In addition, we need an increase in the 7(j) management and technical assistance program. Also vital to the success of the 8(a) program is training and travel funds for our Business Opportunity Specialists in our Field Offices who play a critical role in counseling 8(a) firms. In addition, we need your support for the authorization and funding for BusinessLINC. We will forward the legislative proposals to you once they have been cleared by OMB and look forward to working with you and your staff to accomplish these program improvements.

As indicated in the GAO report, funding for the 7(j) Program, our primary source of funding for technical assistance and training of 8(a) firms, has decreased significantly in the past 10 years. The funding from fiscal years 1990 through 1995 averaged approximately \$8.4 million per year. From fiscal years 1996 through 1999, funding for 7(j) averaged about \$2.8 million per year, well below SBA's budget request. Additionally, the current funding provided includes several "earmarks" that further reduce the funding available to 8(a) firms. Because of the decreased funding, we have been unable to provide technical assistance and training to many 8(a) firms.

In order to provide the needed management and technical assistance and training to the entire 8(a) portfolio, an increase in 7(j) funding is critical. While SBA field staff can address some of the 8(a) firms' training needs, the 7(j) Program is a key tool for the overall business development component of the 8(a) Program. Our FY 2001 request of \$5 million for this program is needed to provide the appropriate level of management and technical assistance to 8(a) firms. The Senate CJS Appropriations Committee has provided this level of funding, and we are hopeful that it remains in the final FY 2001 appropriation bill.

(3) Given the GAO's findings, what changes does the SBA plan to make to the 8(a) program to help firms improve their chances of identifying and successfully pursuing federal contracting opportunities?

The SBA is taking steps to improve the 8(a) program in order to increase contracting opportunities for 8(a) firms. In June, SBA entered into a MOU with the General Services Administration (GSA) allowing blanket acceptance of GSA's Multiple Award Schedules Program under the 8(a) Program. This blanket acceptance provides for a streamlined approach for agencies to award orders to 8(a) firms under the schedules program. Agencies will also be allowed to take credit for orders to 8(a) firms towards their 8(a) goals. This action, and others like it, will increase 8(a) firms' access to opportunities in Federal procurement.

In addition, we are aggressively marketing the 8(a) mentor-protégé program. Through this program, 8(a) firms can enter into strategic alliances enabling them to compete more successfully for larger requirements than they could on their own. To date, we have approved 64 mentor-protégé agreements that will provide contracting opportunities for 8(a) firms.

In addition to improving the 8(a) program itself, we are simplifying the application process. Specifically, we are developing a combined 8(a)/small disadvantaged business application to make it easier for firms to apply for the program. We plan to automate the application and include a decision support module that will allow for approval on-line over the Internet.

- (4) **The GAO found some significant problems with your current 8(a) information system. How much did the SBA spend to develop the current system (SACS/MEDCOR)? To what do you attribute the poor quality of data in the system?**

Because of the age of the SACS/MEDCOR system, which was initially designed during the late 1980s, much of the documentation on its development, including contractual documents containing cost information, is no longer contained in our active files.

As we shared with the GAO, the development of SACS/MEDCOR occurred over a protracted period of time. Federal systems development standards were not articulated as clearly then as they are now in the Clinger-Cohen Act. Notwithstanding any variance from the then existing system development standards, current system deficiencies relate more directly to the now outdated architecture upon which the system was built. The absence of current technology in the system undermines its fundamental reliability and the ability to obtain quality data. That is why it needs to be replaced with a more current systems solution.

SBA is implementing an agency-wide Systems Modernization Initiative (SMI) to re-engineer its business processes and systems to better service its customers. We have begun the planning for the re-engineering of the systems that support the 8(a) program, including the need to develop a system to track the assistance provided to 8(a) firms. It is planned that this effort will be addressed under Phase III of the overall Systems Modernization Initiative.

- (5) **About a month ago, you advised us of your intention to reorganize the Office of Government Contracting and Minority Enterprise Development (GC & MED). In your letter, you said that one reason for the change was that you delegated 8(a) contracting authority to 28 agencies. You also said that the reorganization would yield sharper program focus and improved customer service, among other things.**

- (a) **How many headquarters staff now work specifically on the 8(a) program and how many will work on 8(a) following your reorganization?**

In our notification letter, we advised you that the Office of Government Contracting and Minority Enterprise Development had undergone substantial changes in scope and range of programs. Among other things, we simplified the 8(a) contracting process by delegating contract execution authority to the Federal agencies and implemented a mentor-protégé program to provide more business development assistance to minority businesses.

As of the July 31, 2000 official roster, the number of headquarters staff assigned to the 8(a) program is 43, including 19 staff in our Central Office Duty Stations. As part of our reorganization, we will combine the Offices of Minority Enterprise Development and the Small Disadvantaged Business Certification to form the Office of Business Development. This new office will include the Office of Certification and Eligibility, Office of Management and Technical Assistance, Office of Outreach and Marketing, and Office of Program Review. We have not completed the staffing realignment process. However, we estimate that the program will have a staff of approximately 53. The reorganization does not impact our field structure.

- (b) **How has the delegation of contracting authority affected their responsibilities?**

The delegation has had no effect on the headquarters staff. We continue to work with the agencies to help develop contracting strategies to maximize contracting opportunities to 8(a) firms. The largest impact of this delegation is on the staff in our District offices who previously administered the contract execution aspect of the 8(a) program.

- (6) **I realize that the reorganization did not affect field staff, but how many field staff currently have 8(a)-related duties? How many of these staff are Business Opportunity Specialists? How have their roles changed due to the delegation of contracting authority? How much time on average do they spend on compliance-related issues versus providing direct assistance to 8(a) firms?**

As of the July 31, 2000 official roster, the current number of field staff that has 8(a) related duties total 246 FTEs. Of that number, 221 FTEs are business opportunity specialists (BOSs) and the balance are predominantly contracting

officers. Before the delegation of contracting authority, the contracting officers spent as much as 100 percent of their time reviewing and executing contracts, and the BOSs spent as much as 25 percent of their time on contract-related issues. Additionally, the staff rarely had sufficient time to perform on-site visits of firms, provide detailed business development to firms, or engage in meaningful marketing of procuring activities.

With the delegation, the program focus has shifted from pure contract support to broader business development. The actual time spent on compliance issues, such as annual reviews and data verification, is largely unchanged. Although we do not track actual time spent on conducting annual reviews, we estimate that the field staff spends about 50 percent of their time performing this function. The field staff already performed these functions in accordance with the regulations and standard operating procedures. This shift in priorities is entirely consistent with the direction that we are taking the 8(a) program, to ensure it is a business development program that includes contracting assistance as a sub component.

- (7) **Your aggregate contract data indicates that the amount of 8(a) contract dollars going to firms no longer in the program tripled between fiscal years 1995 and 1999. At the same time, the contract dollars that went to active 8(a) firms declined by \$1 billion. What is the explanation for this trend?**

In FY 1998, approximately 800 firms that were admitted to the Program prior to the 1988 reforms exited the program, causing the number of graduating 8(a) firms to nearly double. These graduated firms continued to perform on these contracts until the term is completed.

- (8) **How much has the SBA spent to date on the Business Assessment tool? Was development of this tool coordinated with the SBA's other information technology initiatives?**

SBA has spent approximately \$284,000 for contract support to develop the Business Assessment Tool (BAT).

The development of the BAT was coordinated with SACS/MEDCOR information and the Procurement Marketing Network (PRO-Net). As previously mentioned in our response to question (4), SBA's Systems Modernization Initiative (SMI) represents our coordinated approach to modernizing all of SBA's processes and systems over a period of several years. The entire 8(a) program will be included in Phase III of this initiative and that effort will include the modernization of the SACS/MEDCOR system. We are evaluating the BAT to ensure we have a modern, integrated support system to meet the management and technical assistance needs of this program.

- (9) **I understand that the SBA plans to gain access to much of the missing data on 8(a) contracting by coupling FPDS data with data from Dunn & Bradstreet. How much is the SBA spending on the Dunn & Bradstreet information, and out of which budget account are such funds being taken?**

There is no cost to SBA for use of data from Dunn and Bradstreet (D&B). The D&B data is embedded in the FPDS data.

- (10) **Isn't it true that the SBA turned off most, if not all, of the data checks that were intended to protect the integrity of the 8(a) data because of the posed inconveniences with respect to data entry?**

Because of the complexity of the design of SACS/MEDCOR, a number of the edits and cross checks were de-activated to make data entry faster and easier. As previously mentioned, SBA is implementing an agency-wide Systems Modernization Initiative to re-engineer its business processes to better service its customers. We have begun the planning for the re-engineering of the systems that support the 8(a) program, including the need to develop a system to track the assistance provided to 8(a) firms. This effort is under Phase III of the overall Systems Modernization Initiative.

Information Technology

- (1) **The Federal government has experienced failures of expensive information systems in the past, including systems implemented by the Internal Revenue Service, the Health Care Financing Administration, and the Federal Aviation Administration. The SBA's Loan Monitoring System is a major systems-development effort, which will cost the taxpayer approximately \$32 million through FY 2001. Given the problems that the GAO has raised, how can Congress be assured that the SBA's efforts won't suffer from many of the same problems that plagued failed efforts elsewhere?**

The Loan Monitoring System (LMS) is the largest information technology (IT) project undertaken by the Small Business Administration (SBA). As such, SBA has identified a team of experts, both internally and with the assistance of contract staff to ensure the project is properly managed. We have assigned some of our most senior and experienced IT staff to the project, hired additional personnel with current IT skills and experiences, undertaken project management training, hired expert consulting support, and dedicated senior, experienced staff from all affected program areas to the project management team. In addition to reporting to the Agency's IT capital planning investment council, the Administrator and Deputy Administrator receive regular briefings. The Agency's Chief Information Officer (CIO) and Chief Operating Officer (COO) provide close oversight on a daily basis.

The early Government Accounting Office (GAO) reviews of the LMS project identified that SBA needed to institutionalize the tracking and oversight of IT projects. SBA has been the recipient of a two year review by GAO which shows considerable improvement in all the areas necessary to ensure project success: project tracking and oversight, configuration management, quality assurance. We have also worked closely with the Senate and House Small Business Committees to keep them informed of our progress. Also, to add another level of quality assurance to our efforts, we are in the process of hiring a consultant to perform independent validation and verification throughout the project. In addition to GAO review and audit, the LMS project is also being audited by SBA's IG.

Additionally, we continue to work with SBA's lenders and trade associations -- the National Association of Government Guaranteed Lenders (NAGGL) and the National Association of Development Companies (NADCO) -- to explain SBA reinvention and modernization efforts. Although these initiatives will result in significant changes in the day-to-day operation of these lenders, they now understand the benefits of changing SBA's lending programs.

SBA is using the LMS project as a pilot for implementing a new project management methodology, system development methodology, documentation standards, configuration management, and quality assurance. We will continue implementing our IT management policies and processes for LMS and will implement the same requirements for other system development projects. SBA has taken many steps to ensure that IT projects are successful, including:

Systems Modernization

- Assigned a senior agency official, the COO, to monitor the progress of all SBA systems modernization efforts.
- Approved ten additional positions for this project in accordance with the FY 2000 spending plan in addition to the original positions.
- SBA's CIO has presented a preliminary organization restructuring to the COO and the Assistant Administrator for Human Resources addressing the new organizational functions needed for Systems Modernization Initiative (SMI) support.
- In June 1999 - Donna Clark was designated as overall SMI Project Manager.
- In FY 1999 - contracted for the development of a detailed Project Plan for SMI.
- In FY 2000 - contracted with Robbins-Gioia for additional project management support.
- Recruiting for Information Technology Architecture Manager.
- Monthly SMI meetings held to ensure integration of Phase I and II systems.

Phase I – Loan Monitoring System

- In June 1998 - LMS project plan developed by Electronic Data Systems (EDS).
- In FY 1999 - awarded project management quality support contract to EDS.
- In FY 2000 - contracted with Robbins-Gioia for additional LMS project management support.
- Continually updating the LMS Project Plan to use as the primary project tracking and oversight tool.
- Developed and implemented Configuration Management, Risk Management, and Quality Assurance plans as control mechanisms for the LMS project.
- Developed SBA Systems Development Methodology, documentation standards, and project management guidance.
- Recruiting for LMS Project Manager.
- Ready to conduct procurement for independent verification and validation (IV&V) of all aspects of the LMS project. Expected award date is 9/15/00.

Phase II – Joint Accounting and Administrative Management System (JAAMS) and Disaster's Credit Management Modernization

- In FY 1999 - Rick Klein designated JAAMS Project Manager.
- In FY 1999 - JAAMS Business Case and requirements analysis by SRA Inc.
- In FY 2000 - JAAMS implementation planning and project management support by SRA Inc.

Phase III – Government Contracting/Minority Enterprise Development and Entrepreneurial Development

- Recruiting for Phase III Project Manager.
- FY 2001 spending plan will be "fast forwarded" and will include identifying FY2001 anticipated expenditures. Expected completion date is Fall 2000.
- FY 2002 budget will identify 2002 and out year requirements for SMI including Phase III.

An additional control and monitoring process for the System Modernization Initiatives are the reviews conducted by SBA's Business Technology Investment Council (BTIC). This is SBA's IT capital planning group composed of senior managers from across the Agency including field representation. The Council was established in 1997 as an integral element of IT investment management within the Agency and it is consistent with the requirements of the Clinger-Cohen Act. Based on discussions with the GAO staff during their review, we had already started to make practical improvements in our IT capital planning practices prior to the release of GAO's report findings. Their recommendations are guiding our continuing effort to document a comprehensive IT capital planning process for the SBA. In addition to our internal effort, we awarded a contract in June to Booz-Allen & Hamilton, a firm with recognized expertise in this area, to assist us in formalizing and institutionalizing our IT capital planning procedures and policies. The contractor is assisting the SBA in developing and

documenting the required processes, which will include the use of a specialized software tool designed solely to support IT capital planning in the Federal government. This work will also include training for SBA managers in IT capital planning principles. We will have these internal IT capital planning processes fully documented by the end of December 2000, though elements of those processes will be adopted in practice well before then.

For now, our managers are following the principles of IT investment management in preparing their annual budgets. Our IT investment review body, the BTIC, has met five times since January to review current and proposed IT investments. Each meeting has included a review of the progress on the LMS project. The BTIC will continue to monitor the development and execution of the Agency's major IT projects as part of the Agency's budget formulation and performance planning processes.

SBA has treated its largest and most significant IT investment, the Systems Modernization Initiative, (which includes the Loan Monitoring System), as a model of how IT capital planning and implementation should be conducted within the Agency. All SMI projects are documented in accordance with the newly developed System Development Methodology, acquisition planning is performed for each, and full documentation is provided to the BTIC and will be entered into the Information Technology Investment Portfolio System (ITIPS).

We believe the steps already implemented and the progress that we are making in enhancing our project management and IT capital planning processes should assure Congress that we are giving this initiative the utmost priority. Our efforts demonstrate our intent to learn from the challenges that others have faced and to not make the same mistakes that plagued major projects in other organizations.

- (2) **The SBA has agreed to take action on the GAO's recommendations for improving IT management. What approach do you plan to use to ensure that these actions are implemented on a timely and effective manner?**

The Chief Information Officer is the management official responsible for ensuring that recommendations in the IT area are implemented in a timely and effective manner. However, there are other processes that will serve as a check on the actions being taken. For example, we are incorporating many of the GAO recommendations as a part of the implementation of the LMS. These actions are incorporated into the plans for that system and as such will be reviewed by senior management as part of their ongoing oversight and by the BTIC. The BTIC will also be involved in reviewing the recommendations related to IT Architecture.

Those recommendations that are not included in the planning for LMS are being incorporated into the business plan for the Office of the Chief Information Officer. The business plan identifies the priority performance measures for the

OCIO. Recommendations in the IT Security area are consistent with the recommendations from SBA's Office of Inspector General and therefore will be reviewed and monitored by the IT Security Committee. We established the IT Security Committee in August 1999 to provide oversight for enhancements to the Agency's IT security program. As indicated there are multiple monitoring mechanisms and procedures that will help ensure that we successfully implement the recommendations.

(3) Have you established a schedule for implementing GAO's recommendations? If so, when do you expect to complete such implementation?

We have not established a separate schedule for completing the GAO recommendations. We have incorporated the GAO recommendations as tasks in our ongoing initiatives that are underway. As an example, SBA has committed itself to becoming certified at Level 2 of the Software Engineering Institute's Capability Maturity Model (CMM) for Organizations, but it will take a significant investment in time, budget, and training over 2 to 3 years to qualify for that standard. CMM Level 2 is one of the criteria used by GAO to evaluate the organization and reaching that level will ensure that we have addressed GAO recommendations. We expect to have the baseline processes and procedures in place well before the 2 to 3 year period that it will take to institutionalize the new processes. In response to Senator Kerry's second question, we have included a chart of the actions we are taking to address GAO's recommendations in each area. Included in the chart are projected times for completing the action items needed to address the recommendations.

(4) What steps, specifically, is the agency taking to address the system security issues? Has the GAO assessed their effectiveness? Are they cost effective?

SBA has moved aggressively to address the information security issues raised in the GAO report [SBA Needs to Establish Policies and Procedures for Key IT Processes](#). It should be noted that, in most instances, SBA had already begun to address the issues and recommendations later cited in the report before the initial audit findings were issued. The following are specific examples of actions that have been taken in this area.

- SBA has documented the computer security program and produced guidance documents and templates for the performance of computer security functions within the Agency.
- SBA has increased the number of authorized personnel for IT security from 2 to 9. We currently have 7 on-board. SBA has also acquired additional contractor support to conduct needed security reviews.

- SBA has developed a comprehensive security-awareness training program in the form of self-paced INTRANET-based security awareness-training courses based upon NIST (National Institute of Standards and Technology) guidelines (Modules are currently being converted to the INTRANET-based format.). The training consists of four modules aimed at specific audiences: end-users, functional program managers, system administrators, and field security officers. We will also have a briefing for senior SBA management. We will make the first INTRANET-based module of this training available to all employees on the Agency's INTRANET in September. The remaining INTRANET-based modules will be completed and available by December 31, 2000.
- SBA has issued an updated computer security policy document – Standard Operating Procedure 90 47 2. This update incorporates security policies covering the latest Agency technology including client servers, e-mail, and the INTERNET.
- SBA is also developing comprehensive disaster recovery plans for the Agency. We have developed prototype recovery plans for each office type and will replicate the prototypes to corresponding offices nationwide. Disaster recovery plans will be in place for all offices nationwide by December 31, 2000. We already have a disaster recovery plan in place for our mainframe operations center, which processes approximately 90% of our automation workload. This plan was tested successfully last year and was successfully retest on August 22-24, 2000.
- SBA has contracted with Integrated Management Systems, Inc. (IMSI) to perform certification and accreditation reviews of SBA's IT assets. IMSI has identified and prioritized the Agency's assets and has completed reviews of 5 of the most sensitive systems and is in the process of completing an additional 3 reviews. IMSI will continue to review the Agency's IT assets, in order of sensitivity, until all assets have been reviewed. It will then begin the process of re-certification, which is required every 3 years. This will be an ongoing, long-term process.
- In other areas not covered in the GAO report, SBA continues its work on developing critical infrastructure protection and security plans required by Presidential Decision Directives (PDDs) 63 and 67. We are upgrading our INTERNET security program with the purchase of intrusion detection software and the replacement of our existing INTERNET monitor with the latest monitoring technology.
- To ensure the security and integrity of our IT environment, we recently contracted with Secure Computing Corporation, a premier computer security

consulting firm, to perform an initial security assessment of the Agency's corporate (non-public) wide area network. The results of that assessment were very favorable. We are in the process of awarding a contract to another highly respected firm in the intelligence community to perform a penetration test and security assessment of our public network. We will be contracting with both companies for periodic reevaluations.

The GAO has not conducted a comprehensive review of our security program since we began implementing enhancements that address their recommendations from the previously mentioned report. However, they have reviewed aspects of our security program as part of their other on-going reviews and have provided both positive and constructive comments on our actions to date. We believe that the actions taken to date and those planned will sufficiently address IT security issues.

Human Capital

- (1) **The SBA has been placing a greater reliance on outside lenders to approve loans since 1992.**
 - (a) **What was the SBA's rationale for developing the marketing and outreach and the leadership competency models first in its workforce-planning?**

We believe developing leadership skills to be the most important factor in driving an organization of this size. We looked to the SBA's managers and supervisors as the primary change agents.

In developing the leadership model, we conducted significant research on leadership competencies that had been developed and validated. We adopted the model used by one of the premier leadership research and development institutions - the Center for Creative Leadership (CCL). We sent our senior leaders to CCL seminars focused on leading through change.

We also targeted the marketing and outreach model because marketing and outreach skills represent a fundamental shift in SBA's functions and were the principal means of interacting with our customers. A significant aspect of our modernization and new markets initiatives is to increase our customer service skills and this training is essential for our employees to provide enhanced customer service.

In August 2000, we provided lender oversight training for approximately 150 SBA employees. The purpose of the training was to provide a broad overview of the lender oversight functions for those employees that will be

involved. In addition, we plan on offering the session again in FY 2001, as well as an advanced course.

Because the agency should be placing emphasis on the oversight of outside lenders, why wasn't the lender-oversight competency model one of the first models developed?

This area is extremely complex and needed to be customized to match SBA's business model. As such, there was a significant amount of coordination and planning that needed to be conducted first to establish the headquarters organization, the Office of Lender Oversight, and the appropriate definition of the roles and responsibilities of the various SBA components. Aspects of lender oversight have been on-going for many years, and all of these had to be redefined in the context of the role of the newly created office. For example, we needed to define what the SBA was looking for in terms of lender oversight, the structure and range of the analysis, the kinds of reviews, benchmarking, remedial actions and how these all contribute to the risk management function.

Additionally, the recently selected Associate Administrator for Lender Oversight will bring to the process a wealth of experience with lender relations and the oversight functions, which we will tap in the competency model development process.

(b) Does the SBA now have sufficient employees with the necessary skills to conduct its lender-oversight function?

In general, yes, because aspects of lender oversight have been a part of SBA's on-going responsibility for years. We will utilize these inherent skills, with some training, to redirect activities and refine employee skills to meet changing roles and responsibilities of SBA in this area.

SBA is currently in the process of staffing a newly established Office of Lender Oversight within the Office of Capital Access in our Headquarters office. The Associate Administrator for Lender Oversight will begin in September. We expect to fill a few remaining positions on that staff.

In addition, the 10 employees in the Preferred Lenders Program (PLP) Review Branch in Kansas City, who are currently part of the Office of Financial Assistance, will become part of the OLO. These employees have experience and skills in the conduct of lender reviews with focus on compliance with policies and procedures for our loan programs.

Over the past several months, SBA has taken a number of steps to involve our field staff in effective lender oversight. We have developed new policies and procedures, developed a software program that can be used by field staff to capture information on lender compliance, and provided

training to enhance skills. We are continuing to look at ways to leverage the talents of our field staff in our lender oversight efforts.

In addition, we have trained approximately 150 employees—essentially two per district office. We will continue with additional basic skills training and will be developing an advanced course next fiscal year.

(c) How does the agency know without a thorough skills assessment?

We believe that an individual who is capable of originating, analyzing, proposing, approving and servicing a loan is also capable of evaluating the loan and monitoring its performance over time. It is the same skill set, with the one difference that the regulator who has had lending experience has an advantage over the regulator who has not. The SBA has extensive human resource capacity in lending and servicing, some of which is being freed up by asset sales and systems modernization.

(d) How many full-time employees currently staff the SBA's lender-oversight office?

We presently have two – a financial analyst and an administrative assistant. After an extensive recruitment process, we have hired an Associate Administrator whom we expect to have on board in early September. As soon as the Associate Administrator is in place, we will realign our PLP review geographically located in Kansas City and begin to hire the remaining staff. When fully staffed, the office will have 16 employees, six in headquarters and ten in Kansas City.

(2) How are the SBA's workforce-planning efforts linked to the agency's modernization of its lender oversight, disaster loan servicing, and financial management systems? For example, with greater automation of the SBA's processes, will fewer staff with different skills be needed to perform the SBA's future work?

We do not see a smaller agency but an agency focused on different functions. Over the past few years, SBA has been reinventing itself to change the way it does business. The agency's modernization initiatives are charged with modernizing SBA business processes, human resource management, information systems, and use of technology. To support these modifications, SBA is changing its focus on human capital and is reassessing staffing and training requirements to meet the demands of the future SBA. The changes in the delivery of SBA's programs have been gradual, and, as a result, many employees are already performing these new functions. As SBA's role and responsibilities continue to change, employees will have the opportunity to transform their work skills into these new areas. It must

be remembered that during the past eight years, SBA has already downsized its workforce more than 23 percent. This downsizing was possible due to the changes that have taken place, such as centralization, privatization and greater dependence on technology. For the foreseeable future, we expect to remain staff neutral.

The greatest shift in emphasis that will occur over the next few years will be from processing to analysis. Automation and asset sales will allow our staff to shift their attention from manual processing of transactions to using information to analyze programs, activities, and performance of our resource partners. This shift demands that we properly train our employees with the skills needed to operate in this new business environment so our small business customers receive first class service and our portfolio is appropriately managed to limit risk to taxpayer funds.

In the short term, these modernization efforts and the sale of assets has actually created more work for staff. The designing of our new systems is very complex and must be performed by those employees who are the most experienced and will be using it most. The success of systems design and implementation is critical and that is why the agency has devoted its senior, seasoned staff to this effort. Additionally, the asset sales process involves a substantial due diligence effort to ensure the loan records are complete and represent an accurate accounting of all activity on the loan. Therefore, the impact of asset sales trails the actual sales by some period of time.

Ultimately, we expect that a further consolidation of servicing activities, especially in the servicing centers, particularly the Disaster Loan Servicing Centers, will occur. Field staff involved in these activities will be freed-up to shift attention to other functions such as lender oversight, marketing and outreach, small business development, procurement assistance to ensure small businesses receive 23% of Federal contracts.

By retraining motivated, skilled employees, SBA is investing in future growth and ensuring the right people are in the right job to deliver quality services.

- (3) **The SBA is retraining many current employees to perform new duties. For example, those who have been reviewing loan guarantees will now be trained in the marketing and outreach function. These jobs take very different skills.**

- (a) **What work have you done to ensure that employees can make the transition to performing new duties successfully after potentially long careers in specialized areas?**

We believe the skills and experience in serving small business that exists in our current workforce is extremely valuable to our future success. Therefore, we are committed to transforming our current workforce to meet our new skill requirements to operate successfully in the 21st century.

Through careful planning and development of the competency models, we will identify the specific training gaps that exist for our employees and customize the training to ensure their ultimate success. Those employees who are unwilling to transform to the new SBA are provided ample opportunities to transition to new jobs at different locations within SBA or to pursue other career opportunities outside SBA, including the opportunity to voluntarily retire early.

To date, SBA has provided 217 managers and supervisors with leadership training, specifically focused on dealing with employee reactions to change. SBA used a leadership competency model developed by one of the premier leadership research and development institutions - The Center for Creative Leadership. We believe this effort is very important to assist in the management of the monumental change that we are undertaking.

In FY 2000, SBA also provided approximately 150 employees Lender Oversight training, and 163 employees Marketing and Outreach training.

Please note that the Agency requested \$4 million in additional funding in FY 2001 to continue the training we believe is necessary to assist our employees in their transition, and in doing their current jobs more effectively. Without adequate funding, the level of required training will not occur as planned and the transformation will ultimately be delayed and not be as effective.

(b) What mechanism have you designed to evaluate the success of the effort to retrain employees for new duties?

Ultimately, the effectiveness of retraining employees will be determined by the agency's success in carrying out its statutory mission. Performance objectives for each employee clearly define the expectations for their performance. Employees will have to meet their objectives to be successful.

Additionally, our employees evaluate each training program and their evaluations are carefully assessed, and changes made for future classes to continuously improve our training.

Our employees have clearly demonstrated in the 1998 and 1999 National Partnership for Reinventing Government Employee Surveys that additional training is necessary.

(c) Did you consider other options, such as contracting with others? If so, why did you select retraining as the best option?

SBA already relies very heavily on the private sector to deliver its programs. There is a balance that needs to be maintained between use of the private sector and Federal employees to assure our mission and level of service to small business. As mentioned above, we consider our employees to be the most important asset in the success of conducting our statutory mission to serve small business. Local employees understand local business practices, lending practices, etc. We believe our historical success clearly demonstrates their loyalty and skill in delivering Federal assistance to these individuals. It makes most sense to capitalize on existing loyalty and skills so that we can continue to serve the nation's 25 million small businesses without disruption and enhance this level of assistance as we move into the 21st century. Of course, we continue to look to further utilize the skills of the private sector, whenever possible and appropriate. The current sale of assets is a perfect example of this privatization.

- (4) **What was the SBA's rationale for selecting the five core competencies – marketing and outreach, business development, lender oversight, and procurement? Were other competencies considered? If so, what were they?**

In selecting the core competencies, we looked at the major agency functions and chose the competencies necessary to perform these functions. Ideally, we would like to develop competency models for every occupational series employed at SBA. However, in light of limited resources, we chose the competencies that best represented the mainline functions of the agency.

- (5) **The GAO indicates that you plan to develop position descriptions and performance standards for the employees who will be performing marketing and outreach, business development, oversight, and procurement functions. Because the GAO also indicates that you have been and plan to continue cross-training many employees in some or all of these duties, please explain how the proposed position descriptions be abolished and, if so, which ones?**

Position descriptions define the grade controlling duties and responsibilities of a position. Since SBA is a dynamic organization undergoing constant change, it is likely that many position descriptions will be created or modified as necessary to maintain their accuracy. This is consistent with statute and our historical practice to ensure that employees know exactly what they are responsible for and that they are evaluated and rewarded based on their accomplishments. As an example, just last year we completely rewrote the position description for our District Director position, encompassing the new duties and responsibilities as the position has evolved over the past several years.

- (6) **It appears that the SBA has been materially transforming the way it conducts business for eight years. I understand that a strategy for managing**

workforce transformation plan is being developed under contract this summer. Please explain why the development of such a plan has been delayed. Also, please explain how long you believe it will take to implement the plan and what will be the most critical elements to its successful implementation.

SBA is a dynamic organization that has undergone constant change as we downsized, right-sized, and transitioned into the 21st century. Not only do we anticipate that the need to change will continue, but we project the rate of change will continue to increase. Based on this expectation, we are in the process of developing a workforce transformation strategy to prepare the SBA for 2003 so we can continue to deliver good value to the American taxpayer by increasing opportunities for small businesses. The 2003 target date represents a reasonable transformation period – allowing us to appropriately manage this level of change and reflects the estimate of the culmination of a number of our current modernization initiatives, such as systems modernization and asset sales, as well as the SBA's 50th anniversary.

SBA has been undergoing dramatic change over this last eight years, as you acknowledge. During this time, we have never lost focus of our mission to support small business. This is clearly evidenced by the remarkable achievements in support to small business during this same period, including lending, business development, and procurement assistance. However, there has not been a clear articulation of these changes and the anticipated impact on SBA's workforce. For that reason, and the current attention by the GAO, Congress, OMB and OPM on Human Capital, SBA decided to formally develop a workforce transformation plan.

The scope of SBA's workforce transformation is enormous – encompassing practically every office, program and employee in some manner. Considering asset sales, program changes, and systems modernization, every aspect of SBA is being affected during this process, which makes the planning and documentation of this effort also a formidable task. The complexity has made this effort long in duration. But it is necessary so that we completely cover all aspects of the transformation and ensure the buy-in of all employees along the way. We have ensured the involvement of staff at all levels, and our union partners, as we develop this plan. This alone requires that the process be methodical and well thought out.

At this time, we expect the delivery of the "Workforce Transformation Plan" in final from our contractor in September 2000. The guide will define changes that have occurred at SBA in the past, those anticipated as we move forward, and the expected changes to SBA's organization, programs and workforce as a result – with 2003 as a planned completion. We anticipate that implementation of the plan will largely be accomplished over a three year schedule that coincides with

SBA's Information Systems overhaul and the evolution of our role from a loan administrator to a loan oversight function. As our small business client population continues to grow, we anticipate significant shifts towards web-based transactions, electronic entrepreneurial business processes, and marketing/outreach disciplines. The workforce transformation process should be time phased to allow for mid course corrections and for keeping pace with technology solutions that continuously offer opportunity for improvements in providing service to our constituency.

Ultimately, as we move into the 21st century, without adequate appropriations and support from our congressional partners, and the continued dedication and focus of SBA leadership, implementation of this initiative will be delayed.

- (7) **The GAO reports that the SBA has undertaken a number of human-capital initiatives over the past several years but that only recently has a senior leader been assigned responsibility for centrally coordinating these efforts. A new administration will be taking office in just six months.**

- (a) **What steps are you taking to ensure that the lessons you have learned in planning for the SBA's human-capital requirements will be documented for the administration?**

As mentioned above, one of the objectives of using a contractor in this process and developing a workforce transformation plan is so that a formal document is available that includes the information needed for disseminating to our existing staff and for the new administration.

In addition, the Administrator has received approval from the Office of Personnel Management to appoint an organizational development expert to an 18 month limited term senior executive appointment. This individual will be responsible for many of the day-to-day tasks related to implementation of our workforce transformation plan and should ensure a smooth transition. The appointment could be extended for an additional 18 months should the new administration be so inclined.

- (b) **How will you communicate the key steps that need to be taken to the new administration to minimize any downtime in realigning the workforce with the business processes that the SBA has adopted for accomplishing its mission?**

We will share our Workforce Transformation Plan with the new administration. Additionally, we expect the services of the organizational development expert and a core group of senior career executives to facilitate implementation at all levels within the Agency.

- (8) **Please provide for the record information on the original contract with Resource Consultants, Inc., the evolution of the contract (including the dollars, and reasons for scope modifications), whether or not the contract was competitively awarded, and how SBA determined that this was the best firm.**

- The initial contract, issued March 2, 2000, was for contractor support to assist with and document our developing work force transformation plan. The initial assignment was to work with Capital Access, and \$29,933 was allocated. We chose Capital Access as the lead program within the Agency because of the importance of lender oversight and the significant progress Capital Access had already accomplished. The contract allowed for expansion to cover the entire Agency. SBA used a competitive process to select RCI, the lowest bidder on the contract.
- SBA expanded the tasking on April 3, 2000, increasing the original contract by \$19,715.38 to \$49,648.38. This revision requested contractor support to assist documenting SBA's transition strategy and planning guide.
- SBA further expanded the contract on June 2, 2000, increasing the funding by \$213,954.00 to \$263,602.38. The revised statement of work required RCI to develop an integrated Workforce Transformation Plan for two elements of the SBA – Headquarters and Centers, with the option of further expansion to our Districts, Regions and Disaster.
- RCI has extensive personnel background in the area of workforce transformation.

- (9) **How does the agency anticipate funding its senior-executive and district director candidate development programs planned for FY 2001 if it does not get its full budget request?**

Both candidate development programs are high priorities for SBA for an effective succession plan for our senior-most managers. Similarly, both of these programs are dependent on sufficient appropriations for FY 2001. The cost of this effort is primarily in the training and travel related to the individuals selected for these programs. These programs will be a key element of our annual training and travel plans. We agree with GAO that we must focus on succession planning to ensure SBA has quality leaders in the coming years.

- (10) **What consideration is the SBA giving to how contract staff fit into its current and future workforce needs?**

Under the general guidelines of the Administration's efforts to reinvent the Government, SBA continues to ask three questions related to its activities: (1) Does the particular activity need to be performed? (2) If yes, can it be done by state and local government and/or the private sector under contract? (3) If no, can the activity be re-engineered? OMB's A-76 requirements and the FAIR Act

require agencies to review their commercial activities to ensure that cost effectiveness considerations are taken into account in deciding whether to contract out activities or perform them with in-house staff. Intent of the legislation clearly is to contract out government functions whenever possible.

SBA has consistently relied on contractors to perform specialized functions (e.g., web design and development, IT infrastructure development and reengineering, database management, maintenance of the mainframe, COBOL programming), privatized functions (e.g., disaster loan servicing, due diligence of assets for sale, warehousing and printing functions, facilities management), and functions requiring "special skill and objectivity" (e.g., program evaluations, audits, customer surveys, management consultancies).

Answers to Post-hearing Questions Posed by
 Senator John Kerry, Ranking Minority Member
 Committee on Small Business
 to David Walker, Comptroller General,
 U.S. General Accounting Office, Washington, D.C.
 Hearing on
 "GAO's Performance and Accountability Review: Is the SBA on PAR?"

July 20, 2000

1. This GAO review has been described as a comprehensive assessment of the agency's ability to manage its programs. Yet, it sounds like the regular audits GAO always performs. What, if anything, is really different?

There are two major differences between our current work at SBA and our previous SBA assignments.

- Our work, when complete, will provide a comprehensive review of selected critical management functions including: strategic planning, budget formulation and execution, organizational alignment and control, performance measurement, human capital, financial management, information technology, and acquisition management. In addition, we are addressing key programs such as 7(a) and 8(a).
- Our work is planned to integrate findings in management functions with programmatic work. For example, our work on the 8(a) program showed that one of the reasons SBA does not know how well its program is working is that its information system does not provide needed data. As our work continues, we will be making further links between management functions and programs.

In contrast, our past SBA work responded to various congressional requests to examine various individual programs or aspects of SBA's management. However, there were no efforts to look at the connections between our reviews or to examine SBA comprehensively.

2. How does the SBA compare in Information Technology with other federal entities and the GAO itself? How does the SBA compare in Information Technology with the private sector?

For the five information technology (IT) areas we reviewed, SBA is the first agency at which we have used the three broad indicators shown in our testimony to summarize our judgments on the state of the entity's policies, procedures, and practices.¹ Accordingly, for these indicators, there is no basis to judge how SBA is performing in relation to other federal agencies.

Although we are unable to offer a direct comparison among SBA and other agencies, it is widely acknowledged that other federal entities have had difficulties in managing IT. For

¹ Information Technology Management: Small Business Administration Needs Policies and Procedures to Control Key IT Processes (GAO/T-AIMD-00-260, July 20, 2000).

years, federal agencies have struggled with delivering promised system capabilities on time and within budget.² Recognition of the need to improve IT management at federal agencies led to passage of the Clinger-Cohen Act in 1996. The act provides an analytical framework for making investment decisions and managing information system development based on industry best practices.

Regarding GAO, over the years we have made major technology investments to improve the efficiency and effectiveness of mission-related operations. Most recently, we have successfully managed the Year 2000 transition. We also continue to take steps to improve the capacity and responsiveness of our network. For the future, we need to maintain and enhance our ability to take greater advantage of modern technology and achieve an integrated infrastructure that supports our goals and objectives for client services, strategic planning, human capital, and business processes. Our strategic plan has four performance goals to support this objective:

- develop a long-term, comprehensive plan for an integrated IT approach;
- develop and implement a short-term, cost-effective approach that begins to satisfy GAO's information needs quickly;
- establish performance and cost metrics addressing the quality and value of IT services; and
- ensure the availability of required IT skills.

As a first step toward implementing these goals, this year GAO is undertaking a comprehensive review of its overall information strategy, with an eye toward striking a balance between wants, needs, and affordability.

Turning to the private sector, we have not conducted an assessment of how SBA's policies, procedures, and practices compare to a representative sample of private organizations. Nevertheless, much of the criteria we used in evaluating SBA represented standards based on widely accepted practices in private industry and guidelines that were established using leading practices in IT management. For example, in evaluating software development and acquisition, we used standards established by the Institute of Electric and Electronics Engineers, Inc., and guidelines established by the Software Engineering Institute of Carnegie Mellon University. Further, in evaluating SBA's IT investment management activities, we used our guidelines (*Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-Making* GAO/AIMD-10.1.13, February 1997), which are largely based on the leading practices of numerous private-sector entities.

² High-Risk Series: An Update (GAO/HR-99-1, January 1999)

3. In the hearing, there were several references to the number of GAO studies of SBA. SBA contends that GAO has conducted 41 studies over the past year, specifically since August 1999 to July 2000. GAO testified that there are only some 20 studies of the SBA being conducted. To set the record straight, how many SBA studies has the GAO conducted over the past year, identified by those completed, the dates begun and completed, and those still on-going, with the dates they were begun?

Our records show that as of August 19, 2000, we had 19 open assignments and during fiscal year 2000, had completed 32 assignments involving SBA. In tracking assignments, we have noted that many of these assignments do not focus exclusively on SBA because they involve multiple federal agencies. See the tables below for more details.

Table 1: Ongoing SBA Assignments as of August 19, 2000

Job title	Job code	Start date
1. Women's Business Centers Sustainability Act of 1999	240388	3/00
2. SBA Oversight of SBLCs	233652	5/00
3. SBA Loan Monitor System Planning	511846	4/00
4. SBA's Budget Formulation and Implementation	935335	9/99
5. Effect of Government Procurement Reform on Small Businesses	240384	2/00
6. SBA Financial Management	913884	1/00
7. Access to Equity Capital*	233620	9/99
8. Use of Federal Resources in Support of the Olympic Games*	240348	1/00
9. Follow-up Federal Manager Survey*	410402	1/99
10. Federal Workforce Trends*	410352	11/98
11. Workforce Challenges 8*	410400	11/98
12. Community Adjustment and Investment Program*	711495	2/00
13. Top-Heavy Private Pension Plans*	207054	3/99
14. Information Systems Controls at RCED Agencies*	919439	8/99
15. Data Sharing Symposium Report*	207088	2/00
16. Conversion of Political Appointees to Career Positions*	410450	3/99
17. Sole Source Advertising Contracts*	240398	3/00
18. Section 223 of SBREFA*	410601	8/00
19. Small Business Technology*	141464	7/00

* Multi-agency assignments

Table 2: Completed SBA Assignments as of August 19, 2000

Job title	Job code	Start date	Issue date
1. SBA Modernization	511761	6/99	2/29/00
2. SBA IT Management	511783	8/99	4/7/00
3. SBA Y2K Recommendations-9/99	511795	9/99	10/15/99
4. SBA Y2K Recommendations-10/99	511803	10/99	10/28/99
5. SBA Y2K Recommendations-11/99	511812	11/99	12/06/99
6. SBA Y2K Follow-up	511824	1/00	1/18/00
7. Status of LMS Planning	511837	2/00	2/24/00
8. SBA Modernization	511841	3/00	4/25/00
9. IT Management at SBA	511851	4/00	5/31/00
10. SBA Loan Origination and Servicing	913577	10/99	11/30/99
11. 730 Small Business Administration	919426	5/99	3/31/00
12. Loan Origination and Servicing*	913847	4/99	10/14/99
13. 015 Loan Guarantee Liabilities*	919084	2/00	3/31/00
14. 003 Loans Receivable*	919395	2/00	3/31/00
15. Internet Complaint Portal*	511996	5/00	6/01/00
16. Formal Bidding Exceptions	240408	4/00	4/24/00
17. VA Small Business Loans*	233634	10/99	6/30/00
18. Advertising Business Barriers*	240966	8/99	4/17/00
19. Small Business Exports*	711461	10/99	11/23/99
20. Business Export Statistics*	711474	12/99	3/31/00
21. Briefing on NAFTA-TAA*	711458	10/99	10/20/99
22. SBA's Estimate of Impacts	385834	10/99	12/15/99
23. SBA's 7(a) Program	385838	1/00	3/31/00
24. Proposed Venture Capital Program	385854	3/00	6/1/00
25. 7(a) Program Issues	385855	4/00	5/26/00
26. Strengths and Weaknesses of the 8(a) Program	385824	9/99	7/20/00
27. 8(a) Database Quality	385840	1/00	7/19/00
28. 8(a) Program Testimony	385871	6/00	7/20/00
29. SBA Overview Testimony	385866	6/00	7/20/00
30. SBA's Human Capital Plans	410481	9/99	7/20/00
31. Information System Controls at SBA	914009	5/00	5/31/00
32. Testimony on SBA's Information Technology Management	511850	6/00	7/20/00

*Multi-agency assignments

4. Similar to question No. 3, using the same time frame, please provide the number of studies conducted and ongoing over the past year at the other federal agencies?

We completed a total of 1,767 assignments in fiscal year 2000 (as of August 19, 2000). At any given time, we have 625 to 700 ongoing assignments. We should note that in several instances, a single assignment could involve multiple agencies. The following tables provide details on the number of ongoing and completed assignments for the individual federal agencies.

Table 1: Number of Ongoing Assignments by Agency as of August 19, 2000

AGENCY NAME	NUMBER OF ONGOING ASSIGNMENTS
Board for International Broadcasting	1
Chemical Safety & Hazard Investment Board	1
Consumer Product Safety Commission	1
Council on Environmental Quality	1
Federal Housing Administration	1
Mining Safety & Health Administration	1
Federal Housing Administration	1
National Highway Traffic Safety Administration	1
Research & Special Programs Administration	1
Export-Import Bank of the U.S.	1
Equal Employment Opportunity Commission	1
Farm Credit Administration	1
Federal Agricultural Mortgage Corp	1
National Archives Records Administration	1
National Assn of Insurance Commissioners	1
National Railroad PA Corp (AMTRAK)	1
National Transportation Safety Board	1
Office of Thrift Supervision	1
Department of Interior-Water & Power	1
Federal National Mortgage Corp	1
Federal Home Loan Mortgage Corp	1
National Oceanic & Atmospheric Administration	2
National Telecommunications & Inform Administration	2
National Institute of Standards & Technology	2
Defense Intelligence Agency	2
Federal Energy Regulatory Commission	2
Coast Guard	2
Bureau of Alcohol, Tobacco, & Firearms	2
Executive Office of the President	2
Federal Deposit Insurance Corp	2
Office of Federal Procurement Policy	2
Tennessee Valley Authority	2
National Assn of Securities Dealers	2
Congressional Budget Office	2
Library of Congress	2
Central Intelligence Agency	3

Comptroller of the Currency (Treasury)	3
Federal Trade Commission	3
Judicial Branch	3
National Institute of Health	4
Occupational Safety & Health Administration	4
Federal Transit Administration	4
National Science Foundation	4
Nuclear Regulatory Commission	4
Pension Benefit Guaranty Corporation	4
Federal Communication Commission	5
Federal Reserve System	5
Center for Disease Control	6
Army Corps of Engineers – Civil	7
U.S. Customs Service (Treasury)	7
Postal Service	7
Federal Emergency Management Agency	8
Security & Exchange Commission	9
Office of Personnel Management	9
Bureau of the Census (Commerce)	10
Food & Drug Administration	12
Agency for International Development	12
Federal Aviation Administration	12
National Aeronautic & Space Administration	12
District of Columbia Government	12
Social Security Administration	14
Office of Management & Budget	15
General Services Administration	17
Small Business Administration	19
Federal Government-Wide	20
Department of Commerce	21
Department of Transportation	21
Department of Education	22
Department of Labor	22
Marine Corps	23
Department of Housing & Urban Development	23
Department of Interior-Not Water & Power	23
Department of Veterans' Affairs	24
Department of Energy	26
Department of State	27
Department of the Treasury	34
Environmental Protection Agency	36
Internal Revenue Service	39
Department of Agriculture	41
Health Care Financing Administration	41
Department of Justice	41
Air Force	45
Navy	49
Army	52
Department of Health & Human Services	55
Department of Defense	152

Table 2: Number of Completed Assignments by Agency as of August 19, 2000

AGENCY NAME	NUMBER OF COMPLETED ASSIGNMENTS
Federal Home Loan Mortgage Corp	1
Office of Federal Housing Enterprise Oversight	1
National Highway Traffic Safety Administration	1
Federal National Mortgage Corp	1
Appalachian Region Commission	1
National Institute of Standards & Technology	1
National Security Agency	1
Federal Energy Regulatory Commission	1
Power Marketing Administration	1
Mining Safety & Health Administration	1
Occupational Safety & Health Administration	1
U.S. Information Agency	1
Federal Railroad Administration	1
Maritime Administration	1
Bureau of Alcohol, Tobacco, & Firearms	1
Equal Employment Opportunity Commission	1
Farm Credit Administration	1
Inter-American Foundation	1
National Archives Records Administration	1
Overseas Private Investment Corp	1
Peace Corps	1
Department of Interior-Water & Power	1
Federal Accounting Standards Advisory Board	1
Tax Court of the U. S.	1
Architect of the Capitol	1
Congressional Budget Office	1
Consumer Product Safety Commission	2
Corporation for National Community Service	2
Federal Housing Administration	2
Export-Import Bank of the U.S.	2
National Credit Union Administration	2
National Transportation Safety Board	2
Office of Federal Procurement Policy	2
Library of Congress	2
Research & Special Programs Administration	3
Federal Communication Commission	3
National Science Foundation	3
Government Printing Office	3
American Battle Monuments Commission	3
Federal Transit Administration	3
National Assn of Securities Dealers	3
Federal Highway Administration	4
Judicial Branch	4
Chemical Safety & Hazard Investment Board	5
Army Corps of Engineers - Civil	5
National Oceanic & Atmospheric Administration	5
Tennessee Valley Authority	5
National Assn of Insurance Commissioners	5

Office of Thrift Supervision	6
Defense Intelligence Agency	7
Executive Office of the President	7
Federal Trade Commission	7
Senate	7
Commodity Futures Trading Commission	7
Office of Personnel Management	8
House of Representatives	8
Federal Deposit Insurance Corporation	9
Nuclear Regulatory Commission	9
National Railroad PA Corp (AMTRAK)	9
Comptroller of the Currency (Treasury)	10
Central Intelligence Agency	12
Coast Guard	12
Postal Service	13
National Institute of Health	14
Federal Emergency Management Agency	17
Federal Reserve System	19
District of Columbia Government	19
U.S. Customs Service (Treasury)	19
National Aeronautics & Space Administration	20
U.S. Trade Representative	20
Bureau of the Census (Commerce)	20
Security & Exchange Commission	20
Office of Management & Budget	23
Food & Drug Administration	25
Center for Disease Control	25
Federal Aviation Administration	25
Department of Labor	30
Small Business Administration	32
Department of Education	33
Marine Corps	34
Agency for International Development	38
General Services Administration	38
Department of Transportation	41
Social Security Administration	43
Department of Housing & Urban Development	45
Department of Commerce	48
Department of Interior-Not Water & Power	50
Department of Veterans' Affairs	53
Environmental Protection Agency	55
Department of Energy	60
Internal Revenue Service	61
Department of the Treasury	62
Federal Government-Wide	65
Navy	69
Air Force	74
Health Care Financing Administration	81
Department of Agriculture	85
Department of Justice	91
Department of State	93
Army	109
Department of Health & Human Services	137
Department of Defense	290

**Response of Stanley J. Czerwinski, Associate Director
Housing and Community Development Issues
Resources, Community, and Economic Development Division
U.S. General Accounting Office, Washington, D.C.
to Post-hearing posed by Senator John Kerry, Ranking Member
Committee on Small Business
Hearing on
“GAO’s Performance and Accountability Review: Is the SBA on PAR?”**

July 20, 2000

8(a) Program

Question

The testimony notes that the 8(a) data and information system does not track all business development information. Please verify that that also applies to data relating to program successes.

Answer

It is correct that SBA does not track 8(a) business development information, including data relating to program successes. SBA managers said that the lack of a system to track and assess the results of business development activities creates a weakness for the program because it is difficult to assess the program’s effectiveness. The officials said that the system’s inability to record training and assistance could lead to an under-accounting of the benefits firms receive from the program. For example, a district manager noted a case in which an 8(a) firm received considerable assistance developing its marketing and other capabilities. This firm, through the auspices of the district office, later negotiated and won a contract with a commercial firm. This outcome could not be credited within the system because: (1) staff have no way of recording the training and assistance provided to firms other than in informal notations, and (2) the contract awarded to the firm was not an 8(a) contract so the award information could not be noted in the system.

**Responses to Senator Kerry's Questions
on GAO's Assessment of SBA's IT Management**

1. To give this report and assessment some perspective, where does SBA rank among federal agencies, GAO, and the private sector in relation to its IT planning management?

For the five information technology (IT) areas we reviewed, SBA is the first agency at which we have used three broad indicators to summarize our judgments on the state of the entity's policies, procedures, and practices. Accordingly, for these indicators, there is no basis to judge how SBA is performing in relation to other federal agencies.

Although we are unable to offer a direct comparison among SBA and other agencies, it is widely acknowledged that other federal entities have had difficulties in managing IT. For years, federal agencies have struggled with delivering promised system capabilities on time and within budget.¹ Recognition of the need to improve IT management at federal agencies led to passage of the Clinger-Cohen Act in 1996. The act provides an analytical framework for making investment decisions and managing information system development based on industry best practices.

Regarding GAO, over the years we have made major technology investments to improve the efficiency and effectiveness of mission-related operations. Most recently, we have successfully managed the Year 2000 transition. For the future, we need to maintain and enhance our ability to take greater advantage of modern technology and achieve an integrated infrastructure that supports our goals and objectives for client services, strategic planning, human capital, and business processes. Our strategic plan has four performance goals to support this objective:

- develop a long-term, comprehensive plan for an integrated IT approach;
- develop and implement a short-term, cost-effective approach that begins to satisfy GAO's information needs quickly;
- establish performance and cost metrics addressing the quality and value of IT services; and
- ensure the availability of required IT skills.

As a first step toward implementing these goals, this year GAO is undertaking a comprehensive review of its overall information strategy, with an eye toward striking a balance between wants, needs, and affordability.

Turning to the private sector, we have not conducted an assessment of how SBA's policies, procedures, and practices compare to a representative sample of private organizations. Nevertheless, much of the criteria we used in evaluating SBA represented standards based on widely accepted practices in private industry and guidelines that were established using leading practices in IT management. For example, in evaluating software development and acquisition, we used standards established by the Institute of

¹ *High-Risk Series: An Update*, GAO/HR-99-1, January 1999

Electric and Electronics Engineers, Inc., and guidelines established by the Software Engineering Institute of Carnegie Mellon University. Further, in evaluating SBA's IT investment management activities, we used our guidelines (*Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-Making* GAO/AIMD-10.1.13, February 1997), which are largely based on the leading practices of numerous private-sector entities.

2. This is the first report of its kind in terms of assessing the IT capabilities of a federal agency by using a three-circle evaluation standard. Upon what criteria was the report based? Did the SBA have an opportunity to have input on these criteria? Do you think any federal agency, in your best estimation, would receive "full circle" ratings?

In evaluating SBA's IT management, we used laws, federal guidelines, industry standards, and our assessment guides. Specifically, in evaluating IT investment management, we applied the Clinger-Cohen Act, the Office of Management and Budget's (OMB) Capital Programming Guide, and GAO's guide *Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-making*. We assessed SBA's IT architecture using the Clinger-Cohen Act, OMB guidance, National Institute of Standards and Technology (NIST) guidelines, and the Chief Information Officer Council's Federal Enterprise Architecture Framework. For software development and acquisition, we applied GSA's *Guide to Planning, Acquiring, and Managing IT Systems* and standards issued by the Software Engineering Institute (SEI) and the Institute of Electrical and Electronics Engineers, Inc. In assessing information security, we used the Clinger-Cohen Act, Computer Security Act, and guidelines issued by OMB, GAO, and NIST. For IT human capital, we applied the Clinger-Cohen Act and our guide *Human Capital: A Self-Assessment Checklist for Agency Leaders*.

At the beginning of our review, we informed SBA officials of the criteria that we would use to evaluate IT management activities. During the review, we discussed the application of the criteria to SBA operations. These standards and guidelines have the flexibility to allow the development of IT processes appropriate for the size and complexity of organizations.

In evaluating the five key IT areas at SBA, we assessed applicable policies, procedures, and practices and used three broad indicators to depict our results. These indicators provide our judgments on the state of SBA policies, procedures, and practices. SBA was the first federal agency in which we have used these indicators to represent our assessment of the five IT areas. We have an ongoing review at the Coast Guard in which we are using these indicators and evaluating the same IT areas.

Regardless of where SBA may stand relative to other federal entities, comparison with industry standards is a sound approach for identifying activities that can be improved to enhance the capability of supporting the agency's mission and achieving a positive return on IT investments. It is unlikely that many federal agencies would receive "full circle" ratings for all activities within the five IT areas. For example, our reviews of information

security have shown that widespread weaknesses persist throughout the federal government in this critical area.

3. Though I think GAO's recommendations in the Information Technology Management Report are fair and helpful, I don't think the evaluation indicators adequately reflect SBA's progress, and I don't think they would adequately gauge progress of other agencies. If the SBA Performance and Accountability Review (PAR) is a prototype for evaluations government wide, I think the GAO should revise the indicators. Does GAO plan to revise the indicators? Please explain why or why not and what would factor into a system of improved evaluation indicators?

In performing future IT management reviews, we will continually update and refresh our evaluation approach, and strive to use the best available criteria and assessment methodologies. In doing so, we will incorporate new and updated legal and regulatory provisions, leading organizations' best practices, and prevailing industry standards. For example, on our current review at the Coast Guard, we are using our recently released guide *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity* (GAO/AIMD-10.1.23, May 2000). In developing this guide, we engaged appropriate experts and informally presented our approach to members of several leading IT management consulting firms. In addition, to ensure that our guide would provide value to the federal IT community, we (1) obtained comments from a selected group of federal Chief Information Officers and their representatives, (2) briefed members of the federal Chief Information Officers Council and its relevant subcommittee, and (3) provided early drafts to members of a GAO-sponsored advisory group of IT executives from private industry and federal and state governments.

4. What steps has SBA taken to address the weaknesses cited in GAO's report, "SBA Needs to Establish Policies and Procedures for Key IT Processes"?

SBA has agreed with our recommendations and has outlined steps it plans to take to improve IT management. For investment management, SBA intends for its business technology investment council to take an increasingly active role in reviewing IT investment performance. It also plans to purchase and install the latest version of the Information Technology Investment Portfolio System and develop a comprehensive set of IT capital planning processes. SBA expects these processes to support the agency's related planning and budget processes.

Regarding our architecture recommendations, SBA has agreed to develop a systematic development process to ensure that the architecture will meet the agency's current and future information processing needs. It has also agreed to establish policies and procedures for architecture maintenance to ensure that new systems and software changes are compatible with SBA's planned operating environment.

For software development and acquisition, SBA is finalizing its systems development methodology and plans to institutionalize and enforce its use agency-wide. SBA also

intends to strengthen its systems development and acquisition capabilities and explore implementing a formal improvement process.

In response to our recommendations for improving information security, SBA stated that it had hired additional staff and contractors to perform periodic risk assessments, system certification reviews of new and existing systems, and other analyses. Regarding periodic security evaluations, SBA said that it had completed certification and accreditation reviews for four systems and that reviews were scheduled for all remaining systems. In addition, SBA noted that it would review available mechanisms for security monitoring and implement appropriate solutions.

For IT human capital management, SBA stated that it would review skills and knowledge requirements at least annually to develop and maintain a skills requirements summary. It also plans to expand and update its current data on IT staff to create a more comprehensive assessment of skills within the agency. SBA added that it would develop a more thorough workforce plan based on the skills survey information. In addition, SBA agreed to periodically evaluate its progress on IT human capital and use the results to continually improve its human capital strategies.

Through its actions and plans, SBA has demonstrated a commitment to improve IT management. Although we have not yet collected current information on the status of SBA's actions to implement all of our recommendations, our ongoing review of SBA's planning for its Loan Monitoring System has shown that the agency is making substantial progress in establishing processes to support software development and acquisition.

Answers to Post-hearing Questions Posed by
 Senator John Kerry, Ranking Minority Member
 Committee on Small Business
 to Michael Brostek, Associate Director, Federal Management and Workforce Issues,
 General Government Division
 U.S. General Accounting Office, Washington, D.C.
 Hearing on
 "GAO's Performance and Accountability Review: Is the SBA on PAR?"

July 20, 2000

1. SBA seems to be ahead of other federal agencies in terms of the steps they have taken to address their human capital needs. Do you have any information about other federal agencies, including the GAO, and steps taken, if any, to address human capital concerns? Again, where does SBA rank relative to these agencies?

As we noted in our testimony, the Small Business Administration (SBA) has taken a number of steps to address its human capital needs. For instance, it has developed two of five planned competency models and training for its staff in those two competencies. SBA also has contracted for a workforce transformation plan that is intended to identify SBA's workforce needs for the future (the "to be"), its current workforce characteristics (the "as is") and how to transform its workforce to better align with its future needs. However, agencies have been in transition during the 1990s and have very different missions (including missions that have changed in some cases). As a result, it would be very difficult to systematically collect data across all major agencies that would support a relative ranking of SBA's efforts with those of other agencies, and we have not done so. Nonetheless, based on our recent work, we know that other agencies face challenges similar to those facing SBA.

For example, SBA is not alone in needing to reinvigorate its succession planning to cope with retirements and other attrition among its senior executives. We reported in Senior Executive Service: Retirement Trends Underscore the Importance of Succession Planning (GAO/GGD-00-113BR, May 12, 2000) that 71 percent of the senior executives in the federal government as of September 30, 1998, will reach regular retirement eligibility by the end of fiscal year 2005.¹ This rate is about 20 percent greater than the 60 percent of the fixed group of career SES members who became eligible to retire over the fiscal years from 1992 through 1998. However, over half of the senior executive service respondents to a recent survey indicated that their agencies did not have formal succession planning programs to prepare for the replacement of departing senior leaders. We recommended that the Office of Personnel Management take a more proactive role in identifying the extent to which agencies are doing succession planning and reach out to agencies not doing such planning to provide assistance.

¹ According to SBA data, as of March 2000 65 percent of its SES employees will be eligible to retire by the end of fiscal year 2005.

Actions taken by the President this year also recognize that many executive branch agencies need to step up the intensity of their efforts to manage their human capital. In the fiscal year 2001 budget, the President added a priority management objective requiring agencies to align their human resources to support agency goals. That management objective commits the Office of Personnel Management (OPM) to helping agencies strategically assess their human resources to ensure a quality workforce. OPM is to complete the design of a prototype work force planning model that will allow line managers to analyze their current work force and prepare "what-if" scenarios under a variety of recruitment, restructuring, or mission change models. This, of course, is part of what SBA is doing through its contract to develop a workforce transformation plan. The President also issued a memorandum in June 2000 that directs the heads of departments and agencies to

- fully integrate human resources management into the agency's planning, budgeting, and mission evaluation processes and clearly state specific human resources management goals and objectives in the agency's strategic and annual performance plans, and
- renew the agency's commitment to recruit, develop, and manage its workforce to ensure high performance, provide for the continued development of a highly competent corps of human resources management professionals to assist line managers in ensuring the most effective use of the agency's workforce to accomplish the agency's mission.

Further, in recent reviews we have conducted in several agencies, we have found challenges not unlike those facing SBA. For example, we reported in Human Capital: Observations on EPA's Efforts to Implement a Workforce Planning Strategy (GAO/T-RCED-00-129, March 23, 2000) that the Environmental Protection Agency, like SBA, does not have a workforce planning strategy to determine the number of employees and competencies needed to carry out its strategic goals and objectives. Also, like SBA, EPA has taken some steps to do so. In Space Shuttle: Human Capital Challenges Require Management Attention (GAO/T-NSIAD-00-133, March 22, 2000) we reported that the National Aeronautics and Space Administration (NASA) has a workforce that is stretched too thin so that critical areas do not have sufficient backup coverage and NASA faces a growing workload that has implications for its training needs and for attracting and retaining staff with required skills. Finally, in SSA Customer Service: Broad Service Delivery Plan Needed to Address Future Challenges (GAO/T-HEHS/AIMD-00-75) we reported that the Social Security Administration (SSA) has made efforts to prepare for the increasing number of retirements it will face but that SSA will need to ensure continuity of leadership through succession planning.

As with many executive branch agencies, GAO downsized during the last decade, essentially suspending hiring for several years, and took other steps designed to cope with mandated budget reductions. We have taken a number of steps to understand and address our human capital issues since Comptroller General Walker took office, including the following:

- Analyzed current, past and projected workforce demographics (e.g., age, diversity, grade/band distribution).
 - Assessed our human capital framework in five key areas: strategic planning, organizational alignment, leadership, talent, performance using Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, September 1999).
 - Established strategic goals and objectives for human capital that are linked to our strategic plan.
 - Created an Employee Advisory Council to discuss current and emerging issues of mutual interest and concern.
 - Obtained staff input regarding human capital issues through
 - an employee feedback survey;
 - our Employee Advisory Council, and
 - numerous discussion groups and outreach sessions.
 - Re-emphasized value of performance management and staff development.
 - Begun an effort to adopt a modern competency based approach to performance management.
 - Inventoried the skills and knowledge of GAO's workforce.
 - Reinvigorated the agency's recruiting and college relations efforts.
 - Communicated to all staff regularly (e.g., Comptroller General chats broadcast throughout GAO and voice and e-mail messages) regarding human capital issues, challenges and changes.
 - Devoted more resources to training, recruitment and performance awards. This focus is essential to attracting and retaining the talent we need to complete our work.
 - Taken steps to increase the amount of succession planning at various levels within the agency.
2. **Many federal agencies, including the GAO, according to recent *Washington Post* articles, are challenged with an aging workforce, unskilled employees, and natural attrition. SBA has requested funding to train its employees, but has not received those funds. Based on your experience, what would be an appropriate amount of funding for an agency of SBA's size to handle workforce transition issues? How does the GAO plan to address its own human capital issues?**

The funding necessary to provide appropriate training for agencies' employees, while related to the number of employees, i.e., the agency's size, can nevertheless vary considerably from agency to agency depending on the circumstances facing each agency. As we reported in Human Capital: Design, Implementation and Evaluation of Training at Selected Agencies (GAO/T-GGD-00-131, May 18, 2000), high performing agencies we contacted consistently approached the design and implementation of their training and development programs by (1) identifying the knowledge, skills, abilities, and behaviors employees need to support organizational missions and goals, and measuring the extent to which employees actually possess those competencies; (2) designing and implementing training programs to meet any identified gaps in those needs; and (3) evaluating the extent to which training programs actually increase employees' individual competencies and performance levels as well as overall organizational performance. Each agency needs to perform such an analysis to make a "business case" for the funding that is required to meet its particular training needs. As we stated in our testimony on SBA's human capital management practices, SBA has taken some steps that can support such an analysis. However, SBA has not completed defining the competencies its staff need—a key requirement for a fully-informed business case to support funding estimates for training.

GAO has undertaken or plans several human capital initiatives related to skills imbalances, the aging of its workforce, and attrition patterns. These initiatives include:

- Developing a new competency based performance management system. These competencies will link directly to pay and help identify training needs. Additionally, these competencies will be integrated into our recruitment and hiring processes.
- Conducting an agency-wide knowledge and skills inventory. This information will be quite useful in workforce planning. It will help identify skill gaps, which will then guide training, succession planning and recruitment efforts.
- Reviewing and updating our training curriculum to address organizational, behavioral, and technical training needs of our staff.
- Requesting legislative changes to help address workforce imbalances and realign GAO's workforce.
- Reviewing opportunities to create incentives to recruit new employees and retain older employees, including debt relief for school loans, allowing retirement eligible staff to work part-time and collect a portion of their pension, and letting employees keep frequent-flyer miles.

Post-hearing Questions posed by Senator John Kerry, Ranking Member
Committee on Small Business
To the Honorable Aida Alvarez, Administrator
Small Business Administration, Washington, D.C.
Hearing on
“GAO’s Performance and Accountability Review: Is the SBA on PAR?”

July 20, 2000

1. **Your testimony highlights many successes of the agency, and it is fairly obvious, even to the most casual of observers, that the SBA is a very successful agency of the federal government. In terms of the GAO’s recommendations, what is the agency’s strategy for improvement?**

The SBA views the oversight provided by the General Accounting Office (GAO) as very constructive. Because of the wide ranging subjects of GAO’s audits, the number of audits, and the fact that GAO is using SBA as a prototype for its Performance and Accountability Reviews, the Administrator determined that the GAO audits and SBA’s response to them as well as follow-up actions, should be managed centrally by the Chief Operating Officer (COO). The COO at SBA responds to Office of Inspector General (OIG) audits, serves as the senior executive directing the agency’s Systems Modernization Initiative (SMI) and carries out other management activities. The COO is in a position to view the agency in its entirety and to ensure that the budget, GPRA plans and reports, and human resource (human capital) programs and information technology programs reflect and support the improvements recommended by the GAO.

The overall agency strategy for improvement goes beyond the GAO recommendations. As described at the hearing, the agency reviews its business products and processes continuously and has made dramatic changes in the way it performs its core business. Agency personnel have been asked to take on different levels of activities and different activities as business processes have been modified. Furthermore -- because of changes in the lending industry as a whole, and changing technologies and the growth of the agency’s portfolio (which in turn requires greater oversight) -- the agency has embarked on an agency wide, multiyear effort to replace its legacy data systems and upgrade its use of technology. This effort is known as the Systems Modernization Initiative.

The agency’s strategy for improvement is to keep reviewing its business products and processes. This is seen as a continuous undertaking. As part of its strategy, the agency will continue to focus on its information technology infrastructure and push its SMI program as aggressively as possible. The agency has also prioritized training as part of our strategy for workforce transformation and management improvement. Because so many of the GAO’s recommendations require funding and personnel resources, the agency continues to reflect resource requirements in

its budget requests and continues to make available resources throughout the year as resources are identified at monthly reviews of our fiscal status. As GAO recommendations are made, SBA senior staff attempts to identify available resources through fiscal reviews as well as through other management assessments including those of the Business Technology Investment Council (BTIC).

2. **What steps has SBA taken to address the weaknesses cited in GAO's report, "SBA Needs to Establish Policies and Procedures for Key IT Processes?"**
 The SBA was aware of the need to improve in many of the areas identified in the GAO's report and we had already initiated actions to improve these areas. Additionally because of our on-going working relationships with the GAO staff other areas for improvements were identified and discussed with us prior to the release of the report. We have been aggressively addressing weakness in the information technology (IT) areas.

The following specific actions have been completed, are currently underway or have been planned to correct weaknesses in each of the five IT functional areas addressed in the GAO report.

Progress in Addressing GAO's IT Management Recommendations

Review Area	Actions Taken
IT Capital Planning	<ul style="list-style-type: none"> • A contract was awarded to Booz-Allen & Hamilton in June 2000 to develop formal procedures for the Selection, Control and Evaluation portions of IT Capital Investment. These procedures will enable the Agency to strengthen and streamline the operations and coordination of the IT capital planning group with the Budget and GPRA. • New procedures and policies will be implemented in phases. The implementation process will include training for senior managers. The revised and formally documented IT capital planning process is scheduled for completion in December 2000. • The SBA is implementing the latest version of the software package (ITIPS-Information Technology Investment Planning System) to automate the process and to aid in ensuring the capture of consistent and quality IT capital planning data.

Review Area	Actions Taken
IT Architecture	<ul style="list-style-type: none"> • The IT Architecture (ITA) document was completed in February 2000. • Draft policy for the maintenance of the ITA has been developed and SBA has established December 1, 2000 as target date for implementing the ITA maintenance policy. • A configuration management process is in place for the Loan Monitoring System (LMS) and all projects under the System Modernization Initiative will adhere to the configuration management policies and guidelines being developed and used for the LMS. • We have hired a Quality Assurance Manager and will be conducting interviews for an IT Architectural Manager later this month. The job announcement has closed and we expect selection to be made by September 19, 2000.
Software Development	<ul style="list-style-type: none"> • SBA's OIG has reviewed the System Development Methodology (SDM) and said they were consistent with industry standard. They recommended a few minor changes and all but one has been implemented. • We are developing a contract to finalize the SDM for agencywide enforcement beginning December 1, 2000. • We are performing configuration management, acquisition planning, project tracking and oversight with LMS including regular reviews by senior officials and the IT Capital Investment Council. This practice will be expanded to other SMI projects. • We have awarded a contract to Robbins-Gioia for project management support for SMI and to review and revise SBA project management methodology.

Review Area	Actions Taken
Information Security	<ul style="list-style-type: none"> • As stated in the GAO report, we have increased IT security personnel to 9 and allocated over \$800 thousand for contractor support to conduct security reviews. • We have conducted a workload assessment that identified and ranks our systems based on the threats. We are conducting certification and accreditation reviews based on this analysis. • Four accreditation and certification reviews have been completed. Policy and procedures are in place. • A security awareness training course has been developed. It is being converted for delivery via the SBA's Intranet for easier agencywide access. The first module is scheduled to be available to employees September 2000. The remaining three training modules will be made available at 6-week intervals. • Prototype contingencies were developed based on office size and functions. These plans will serve as templates to develop specific plans for all SBA locations. The target date for agencywide completion of contingency plans is Dec. 31, 2000. • The security standard operating procedure, "Automated Information Security Program," SOP 90 47 2, has been updated and issued. It is available to all employees via SBA Intranet. • We are developing the plans required by Presidential Decision Directives (PDDs) 63 and 67. • Improved the INTERNET security program by purchasing intrusion detection software. We are upgrading our existing INTERNET monitoring software with the latest monitoring technology. • A contract was awarded to a premier computer security consulting firm, Secure Computing Corporation to perform an initial security assessment of the Agency's corporate (non-public) network. We are in the process of awarding a contract to another highly respected firm in the intelligence community to perform a penetration test and security assessment of the Agency's public network.
Human Capital	<ul style="list-style-type: none"> • We have researched and identified potential sources to conduct IT skills inventory and are developing a Statement of Work to be issued. • As part of the workforce transformation project we have identified the "as is" functions and skills of the IT organizations and have identified a "to be" model indicating the new functions and skills that will be needed.

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